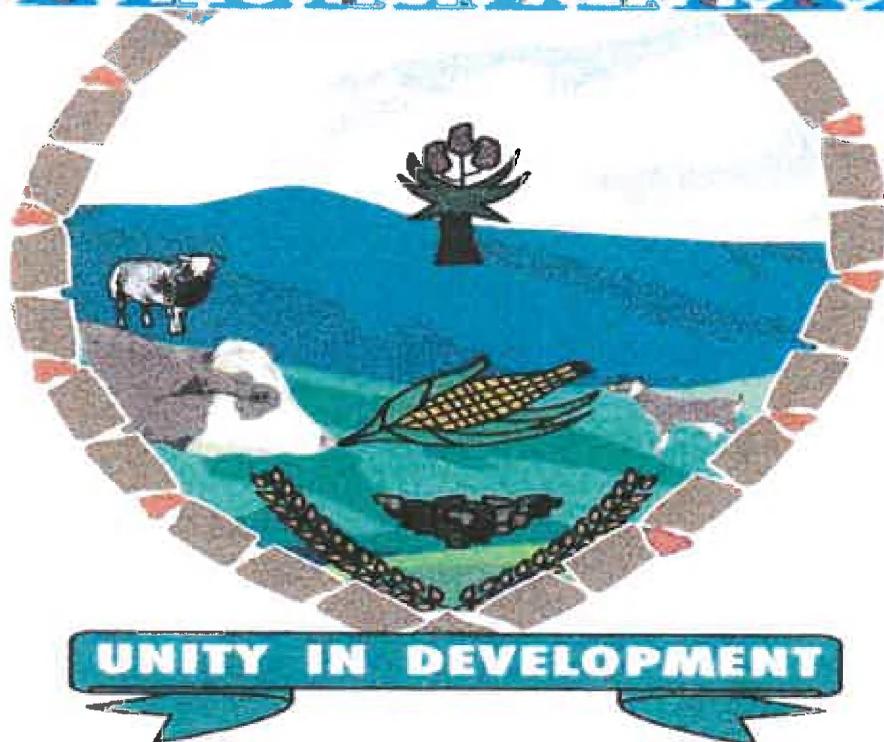


EMALAHLENI

MUNICIPALITY



UNITY IN DEVELOPMENT

[These financial statements have not been audited]

ANNUAL FINANCIAL STATEMENTS

30 JUNE 2020

EMALAHLENI MUNICIPALITY

Index

Content	Page
General Information	1 - 3
Approval of the Financial Statements	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes In Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts - Statement of Financial Position	9
Statement of Comparison of Budget and Actual Amounts - Statement of Financial Performance	10
Statement of Comparison of Budget and Actual Amounts - Cash Flow Statement	11
Accounting Policies	12 - 44
Notes to the Financial Statements	45 - 96

APPENDICES

A Schedule of External Loans	97
B Segmental Statement of Financial Performance - GFS Classifications	98
C Segmental Statement of Financial Performance - Municipal Votes	99
D Disclosure of Grants and Subsidies In Terms of Section 123 of MFMA, 56 of 2003	100

EMALAHLENI MUNICIPALITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

GENERAL INFORMATION

NATURE OF BUSINESS

Emalahleni Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 105 of 1996)

COUNTRY OF ORIGIN AND LEGAL FORM

South African Category **B Municipality (Local Municipality)** as defined by the Municipal Structures Act. (Act no 117 of 1996)

JURISDICTION

The Emalahleni Municipality includes the following areas:

Dordrecht

Indwe

Lady Frere

MAYOR

NF Koni

SPEAKER

DS Kalolo

CHIEF WHIP

N Lali

MEMBERS OF THE EXECUTIVE COMMITTEE

Mayor	<i>NF Koni</i>
Speaker	<i>DS Kalolo</i>
Executive Councillor	<i>N Lali</i>
Executive Councillor	<i>S Liwani</i>
Executive Councillor	<i>T Kulashe (Ndyumbo)</i>
Executive Councillor	<i>M Limba</i>
Executive Councillor	<i>MX Oyiya</i>

MUNICIPAL MANAGER

VC Makedama

CHIEF FINANCIAL OFFICER

X Sikobi

REGISTERED OFFICE

Emalahleni Municipality
37 Indwe Road;
Lady Frere
5410

AUDITORS

Office of the Auditor-General (Eastern Cape)

EMALAHLENI MUNICIPALITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

GENERAL INFORMATION

PRINCIPLE BANKERS

Standard Bank; 92 Cathcart RD; Komani; 5320

ATTORNEYS

NT Vuba Attorneys Inc

Ntsiki Pakade Attorneys and Consultants

Tonise Attorneys

RELEVANT LEGISLATION

Basic Conditions of Employment Act (Act no 75 of 1997)

Collective Agreements

Division of Revenue Act

Electricity Act (Act no 41 of 1987)

Employment Equity Act (Act no 55 of 1998)

Housing Act (Act no 107 of 1997)

Infrastructure Grants

Municipal Budget and Reporting Regulations

Municipal Finance Management Act (Act no 56 of 2003)

Municipal Planning and Performance Management Regulations

Municipal Property Rates Act (Act no 6 of 2004)

Municipal Regulations on Standard Chart of Accounts

Municipal Structures Act (Act no 117 of 1998)

Municipal Systems Act (Act no 32 of 2000)

Municipal Systems Amendment Act (Act no 7 of 2011)

SALBC Leave Regulations

Skills Development Levies Act (Act no 9 of 1999)

Supply Chain Management Regulations, 2005

The Income Tax Act

Unemployment Insurance Act (Act no 30 of 1966)

Value Added Tax Act

Water Services Act (Act no 108 of 1997)

EMALAHLENI MUNICIPALITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

GENERAL INFORMATION

MEMBERS OF THE EMALAHLENI MUNICIPALITY

WARD	COUNCILLOR
Ward 01 Councillor	Thozama Mwеби
Ward 02 Councillor	Nolister Kama
Ward 03 Councillor	Xolela Hendrick Njadu
Ward 04 Councillor	Nomzi Mary Tyhulu
Ward 05 Councillor	Siyabulela Bongo
Ward 06 Councillor	Nontombizanele Flowerdale Koni
Ward 07 Councillor	Sipo Ernest Zama
Ward 08 Councillor	Nosibulelo Mavis Nqono
Ward 09 Councillor	Linda Arnold Fatyela
Ward 10 Councillor	Zoyisile Given Moshane
Ward 11 Councillor	Thembi Florence Mondile
Ward 12 Councillor	Tandiwe Monica Ndlala
Ward 13 Councillor	Nowandisile Nobantu Kraqa
Ward 14 Councillor	Mncedisi Sydney Qomoyi
Ward 15 Councillor	Lizo Nelson Paul
Ward 16 Councillor	Makosandile Makatesi
Ward 17 Councillor	Cecil Hluphekile Bobotyane
PR Mayor	Nomveliso Nyukwana
PR Mayor	NF Koni
PR Speaker	Dumisa Shadrack Kalolo
PR Chairperson of section 79 Committee	Patricia Lurnka Mapete
PR Executive Committee	Thandeka Gloria Kulashe
PR Councillor	Nolitha Catherine Lali
PR Chairperson of section 79 Committee	Primrose Badikazi Twala
PR Executive Committee	Sibha Liwani
PR Councillor	Thobeka Daphne Sixishe
PR Councillor	Nokwandisa Mildred Ziduli
PR Executive Committee	Mcebisi Stephen Limba
PR Executive Committee	Ncedisa Myobile
PR Councillor	Pieter Frederick Greyling
PR Councillor	Michael Fumanekile Mthandeki
PR Executive Committee	Mxolisi Peacemaker Oyiya
PR Councillor	Rossenberg Zolile Feni
PR Councillor	Zenzile Dennis Mahola
PR Councillor	Kwaaiman Mjezu

EMALAHLENI MUNICIPALITY

APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements year ended **30 June 2020**, which are set out on pages 1 to in terms of Section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

I acknowledge that I am ultimately responsible for the system of internal financial control and that the system of internal control provides reasonable assurance that the financial records can be relied on.

I have reviewed the Municipality's cash flow forecast for the year to **30 June 2021** and am satisfied that the Municipality can continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the Municipality's financial statements.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

As per Government Gazette no 43582 dated 5 August 2020, National Treasury has granted municipalities a two month extension regarding the submission of Annual Financial Statements. This municipality has taken advantage of this extension.

The annual financial statements were prepared on the going concern basis.



VC Makedama
Municipal Manager



Date

EMALAHLENI MUNICIPALITY

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2020

	Notes	2020 R	2019 R
ASSETS			
Non-Current Assets		449 121 370	441 915 420
Property, Plant and Equipment	2	444 445 789	437 182 364
Investment Property	3	4 147 081	4 149 487
Intangible Assets	4	345 964	401 033
Heritage Assets	5	182 536	182 536
Current Assets		24 871 916	25 719 514
Receivables from Exchange Transactions	6	8 242 891	11 127 594
Receivables from Non-exchange Transactions	7	7 918 281	6 310 987
Operating Lease Asset	8,1	29 465	50 939
Taxes	9	2 890 146	4 085 053
Cash and Cash Equivalents	10	5 791 132	4 144 940
Total Assets		473 993 286	467 634 934
NET ASSETS AND LIABILITIES			
Non-Current Liabilities		12 411 334	17 749 921
Long-term Borrowings	11	-	371 872
Non-current Provisions	12	2 495 333	1 836 717
Non-current Employee Benefits	13	9 916 000	10 257 581
Payables from Non-exchange Transactions	18	-	5 283 751
Current Liabilities		44 991 822	43 945 770
Provisions	14	11 361 783	10 975 263
Current Employee Benefits	15	13 075 473	10 902 034
Trade and Other Payables from Exchange Transactions	16	12 860 803	14 844 296
Unspent Transfers and Subsidies	17	1 488 103	1 533 060
Payables from Non-exchange Transactions	18	5 833 789	5 283 752
Current Portion of Long-term Borrowings	11	371 872	407 385
Total Liabilities		57 403 156	61 695 691
Net Assets		416 590 133	405 939 242
Accumulated Surplus/(Deficit)		416 590 133	405 939 242
Total Net Assets and Liabilities		473 993 289	467 634 933

EMALAHLENI MUNICIPALITY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 R	2019 R
REVENUE			
Revenue from Non-exchange Transactions		177 260 499	174 944 350
Taxation Revenue		8 153 800	4 514 561
Property Rates	19	8 153 800	4 514 561
Transfer Revenue		164 607 384	168 109 940
Government Grants and Subsidies - Operating	20	131 303 943	123 284 528
Government Grants and Subsidies - Capital	20	33 303 441	44 825 412
Other Revenue		4 499 315	2 319 849
Actuarial Gains	13	2 324 633	853 763
Fines, Penalties and Forfeits		154 603	8 512
Interest Earned - Receivables from Non-exchange Transactions	27	2 020 079	1 457 474
Revenue from Exchange Transactions		34 659 571	34 498 804
Licences and Permits	21	1 744 161	1 744 786
Service Charges	22	23 889 341	23 929 420
Sales of Goods and Rendering of Services	23	112 715	304 059
Rental from Fixed Assets	24	906 256	893 643
Interest Earned - External Investments	25	1 384 885	870 360
Interest Earned - Receivables from Exchange Transactions	26	4 693 124	3 707 117
Agency Services		536 945	800 266
Operational Revenue	28	1 392 143	2 249 153
Total Revenue		211 920 070	209 443 153
EXPENDITURE			
Employee related cost	29	(86 307 589)	(81 209 853)
Remuneration of Councillors	30	(13 486 389)	(13 002 783)
Bad Debts Written Off		(1 849 678)	(1 509 338)
Contracted Services	31	(20 678 896)	(20 507 472)
Depreciation and Amortisation	32	(20 939 634)	(24 223 300)
Actuarial Losses	13		(90 050)
Finance Costs	33	(2 136 254)	(1 585 888)
Bulk Purchases	34	(12 701 110)	(9 624 972)
Inventory Consumed	35	(2 655 939)	(2 096 530)
Operating Leases		(41 995)	(168 944)
Transfers and Subsidies	38	(102 906)	(10 945 603)
Operational Costs	37	(22 050 732)	(27 679 523)
Total Expenditure		(182 951 212)	(192 644 256)
Operating Surplus/(Deficit) for the Year		28 968 858	16 798 897
Reversal of Impairment Loss/(Impairment Loss) on Receivables	38	(16 626 143)	(10 534 649)
Impairment loss on Fixed Assets		(225 268)	
Gains/(Loss) on Sale of Fixed Assets	2,11	20 137	(521 245)
Derecognition of fixed assets	2,12	(1 486 693)	(9 549 698)
NET SURPLUS/(DEFICIT) FOR THE YEAR		10 650 891	(3 806 694)

EMALAHLENI MUNICIPALITY

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2020

	Accumulated Surplus/ (Deficit)	Total
	R	R
Balance at 1 July 2018	407 966 647	407 966 647
Correction of Error - note 39.7	1 779 288	1 779 288
Restated balance	409 745 935	409 745 935
Net Surplus/(Deficit) for the year	(3 806 693)	(3 806 693)
Net Surplus/(Deficit) previously reported	(3 524 131)	(3 524 131)
Effects of Correction of Errors - note 39	(282 562)	(282 562)
Balance at 30 June 2019	405 939 242	405 939 242
Net Surplus/(Deficit) for the year	10 650 891	10 650 891
Balance at 30 June 2020	416 590 133	416 590 133

EMALAHLENI MUNICIPALITY

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 R	2019 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts			
Ratepayers and other		27 637 550	21 430 243
Government - Operating		131 303 943	123 751 289
Government - Capital		33 258 484	45 891 711
Interest		1 384 885	870 360
Cash payments			
Suppliers		(65 692 431)	(57 101 353)
Employees		(82 933 320)	(79 165 282)
Councillors		(13 486 389)	(12 991 555)
Finance Charges		(67 288)	(109 750)
Net Cash from Operating Activities	40	31 405 435	42 575 664
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment		(29 351 878)	(43 950 481)
Proceeds on Disposal of Fixed Assets		22 095	
Net Cash from Investing Activities		(29 351 878)	(43 928 386)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of Borrowing		(407 365)	(368 752)
Net Cash from Financing Activities		(407 365)	(368 752)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		1 646 192	(1 721 474)
Cash and Cash Equivalents at the beginning of the year		4 144 940	5 866 415
Cash and Cash Equivalents at the end of the year	10	5 791 132	4 144 940
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1 646 192	(1 721 474)

EMALAHLENI MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2020

	Notes	Original Budget	Budget Adjustments (I.t.o. s28 and s31 of the MFMIA)	Final Adjustment Budget		Shifting of Funds (I.t.o. s31 of the MFMIA)	Virement (I.t.o. Council approved by-law)	Final Budget	Actual Outcome	Actual Outcome as % of Final Budget	
				R	R						
ASSETS											
Current Assets											
Cash	612.1	86 321 000	(84 794 000)	3 527 000	-	-	3 527 000	974 978	12,70%		
Call Investment Deposits		2 864 000	13 947 000	16 551 000	-	-	16 551 000	1 816 153	-89,03%		
Consumer Debtors		66 285 000	(54 637 000)	11 598 000	-	-	11 598 000	15 348 638	32,32%		
Other Debtors		26 923 000	(26 923 000)	38 000	-	-	38 000	3 734 145	9726,70%		
Inventory		1 931 000	(1 301 000)	-	-	-	-	-	0,00%		
Total Current Assets		185 444 000	(153 730 000)	31 714 000	-	-	31 714 000	24 871 916	-21,57%		
Non-Current Assets											
Investment Property		4 543 000	(394 000)	4 149 000	-	-	4 149 000	4 147 081	-0,05%		
Property, Plant and Equipment		485 268 000	(38 723 000)	446 545 000	-	-	446 545 000	444 445 789	-0,47%		
Intangible Assets		556 000	(155 000)	401 000	-	-	401 000	345 884	-13,72%		
Other Non-Current Assets		183 000	-	183 000	-	-	183 000	182 536	-0,25%		
Total Non-Current Assets		490 350 000	(39 272 000)	451 278 000	-	-	451 278 000	449 121 370	-0,48%		
TOTAL ASSETS		675 994 000	(193 052 000)	452 692 000	-	-	452 692 000	473 993 286	-1,86%		
LIABILITIES											
Current Liabilities											
Consumer Deposits		46 000	(46 000)	-	-	-	20 983 000	18 684 591	0,00%		
Trustee and Other Payables		70 656 000	(49 673 000)	20 983 000	-	-	21 877 000	1 458 103	-10,81%		
Unspent Transfers and Subsidies		-	-	21 877 000	-	-	-	24 437 256	100,00%		
Provisions		18 053 000	5 824 000	-	-	-	-	-	11,70%		
Total Current Liabilities		86 755 000	(43 895 000)	42 860 000	-	-	42 860 000	44 619 951	4,11%		
Non-Current Liabilities											
Borrowing		1 407 000	(1 324 000)	373 000	-	-	373 000	371 872	-0,30%		
Provisions		13 394 000	3 894 000	17 378 000	-	-	17 378 000	12 411 334	-26,58%		
Total Non-Current Liabilities		14 801 000	2 950 000	17 751 000	-	-	17 751 000	12 783 205	-27,88%		
TOTAL LIABILITIES		101 556 000	(40 945 000)	60 611 000	-	-	60 611 000	57 403 156	-5,29%		
NET ASSETS											
Accumulated Surplus/(Deficit)		574 436 000	(152 057 000)	422 381 000	-	-	422 381 000	416 590 132	-1,37%		
TOTAL NET ASSETS		574 436 000	(152 057 000)	422 381 000	-	-	422 381 000	416 590 133	-1,37%		

Refer to note 43 for explanations of variances.

EMALAHLENI MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

Motive	Original Budget	Budget Adjustments (i.t.o. n.111 and §31 of the MFMA)	Final Adjustment Budget			Shifting of Funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved by- law)	Final Budget	Actual Outcome		Actual Outcome as % of Final Budget
			R	R	R				R	R	
REVENUE											
Property Rates	4 799 000	3 802 000	10 600 738	-	-	-	-	10 600 738	8 153 800	-	-30.01%
Service Charges - Electricity Revenue	15 355 000	6 969 995	23 324 995	-	-	-	-	23 324 995	15 591 728	-	-49.80%
Service Charges - Refuse Revenue	6 387 000	5 094 995	12 081 995	-	-	-	-	12 081 995	8 297 613	-	-45.81%
Rental of Facilities and Equipment	1 488 000	-	1 468 000	-	-	-	-	1 468 000	906 256	-	-61.99%
Interest Earned - External Investments	1 147 000	796 000	1 947 000	-	-	-	-	1 943 000	1 384 885	-	-40.30%
Interest Earned - Outstanding Debtors	6 127 000	1 262 000	7 389 000	-	-	-	-	7 389 000	6 713 203	-	-10.07%
Fines	115 000	284 000	399 000	-	-	-	-	399 000	154 603	-	-158.08%
Licences and Permits	1 514 000	548 000	2 062 000	-	-	-	-	2 062 000	1 744 161	-	-16.22%
Agency Services	1 384 000	1 000 000	2 384 000	-	-	-	-	2 384 000	536 945	-	-343.99%
Transfers Recognised - Operational	138 711 000	596 000	139 307 000	-	-	-	-	139 307 000	131 303 943	-	-6.10%
Other Revenue	1 969 000	8 541 000	8 501 000	-	-	-	-	8 501 000	8 229 491	-	-121.89%
Gains on Disposal of PPE	-	-	-	-	-	-	-	20 137	20 137	-	100.00%
Total Revenue (excluding capital transfers and contributions)	61 126	180 567 000	26 893 990	209 460 728	-	-	-	209 460 728	178 638 786	-	-12.86%
EXPENDITURE											
Employee Related Costs	96 117 000	138 911	96 245 911	-	-	-	-	96 245 911	86 307 589	-	-11.53%
Remuneration of Councillors	14 070 000	(139 000)	13 931 000	-	-	-	-	13 931 000	13 486 389	-	-3.30%
Debt Impairment	6 000 000	-	6 000 000	-	-	-	-	6 000 000	16 475 821	-	67.53%
Depreciation and Asset Impairment	24 256 000	-	24 256 000	-	-	-	-	24 256 000	21 164 903	-	-14.60%
Finance Charges	271 000	-	271 000	-	-	-	-	271 000	2 138 254	-	87.31%
Bulk Purchases	16 070 000	1 624 863	17 694 863	-	-	-	-	17 694 863	12 701 110	-	-39.32%
Other Materials	2 767 000	(35 011)	2 731 989	-	-	-	-	2 731 989	2 635 939	-	-2.66%
Contracted Services	17 126 000	3 797 213	20 923 213	-	-	-	-	20 923 213	20 678 896	-	-1.18%
Transfers and Grants	230 000	(35 000)	195 000	-	-	-	-	195 000	102 996	-	-89.33%
Other Expenditure	20 011 000	7 164 483	27 175 483	-	-	-	-	27 175 483	23 579 420	-	-15.25%
Total Expenditure	81 27	196 918 000	12 516 459	209 434 459	-	-	-	209 434 459	201 289 316	-	-4.05%
Surplus/(Deficit)	(16 351 000)	11 913 541	28 269	-	-	-	-	26 269	(22 652 550)	-	100.12%
Transfers Recognised - Capital	31 848 000	-	31 848 000	-	-	-	-	31 848 000	33 303 441	-	4.37%
Surplus/(Deficit) for the year	15 497 000	11 913 541	31 874 269	-	-	-	-	31 874 269	10 650 891	-	-199.26%

Refer to note 43 for explanations of variances.

ENALAHLENI MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2020

Notes	Original Budget (l.t.o. 410 and s31 of the MFMA)	Budget Adjustments (l.t.o. 410 and s31 of the MFMA)	Final Adjustment Budget		Shifting of Funds (l.t.o. s31 of the MFMA)	Virement (l.t.o. Council approved by- law)	Final Budget R	Actual Outcome R	Actual Outcome % of Final Budget							
			R	R												
CASH FLOW FROM OPERATING ACTIVITIES																
Receipts																
Taxation	4 050 000	1 034 000	5 084 000				5 084 000	5 032 126	-1.02%							
Service Charges	18 294 000	1 995 000	20 289 000				20 289 000	16 579 034	-18.29%							
Other Revenue	4 903 000	6 975 000	11 878 000				11 878 000	6 026 300	-49.26%							
Government - Operating	133 306 000	2 670 000	135 976 000				135 976 000	131 303 943	-3.44%							
Government - Capital	31 848 000	890 000	32 738 000				32 738 000	33 258 484	1.59%							
Interest	8 747 000	(7 600 000)	1 147 000				1 147 000	1 384 885	20.74%							
Payments																
Suppliers and Employees	(166 161 000)	11 021 000	(155 140 000)				(155 140 000)	(162 112 139)	4.49%							
Finance costs	(271 000)	-	(271 000)				(271 000)	(67 288)	-75.17%							
Transfers and Grants	(100 000)	(80 000)	(180 000)				(180 000)	-	-100.00%							
Net Cash from/(used) Operating Activities	51 2.8	34 616 000	16 905 000	51 521 000	-	-	51 521 000	31 405 435	-39.04%							
CASH FLOW FROM INVESTING ACTIVITIES																
Receipts																
Proceeds on disposal of PPE		22 000 000	22 000 000				22 000 000		-100.00%							
Payments																
Capital Assets																
Net Cash from/(used) Investing Activities	51.2.9	-	22 000 000	22 000 000	-	-	-	(29 351 878)	100.00%							
CASH FLOW FROM FINANCING ACTIVITIES																
Payments																
Repayment of Borrowing								(407 365)	100.00%							
Net Cash from/(used) Financing Activities								(407 365)	100.00%							
NET INCREASE/(DECREASE) IN CASH HELD	51.2.10	-	-	-	-	-	-	(407 365)	100.00%							
Cash and Cash Equivalents at the year begin:																
Cash and Cash Equivalents at the year end:																
Refer to note 43 for explanations of variances.																

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE FINANCIAL STATEMENTS

1.1. BASIS OF PREPARATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

The annual financial statements have been prepared in accordance with the Municipal Finance Management Act (MFMA) and effective standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework , have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 (Revised – March 2012) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed below.

Assets, liabilities, revenue and expenses have not been offset except when offsetting is permitted or required by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise. The details of any changes in accounting policies are explained in the relevant notes to the financial statements.

In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the Municipality applied deemed cost to Investment Property, Property, Plant and Equipment and Intangible where the acquisition cost of an asset could not be determined.

1.2. PRESENTATION CURRENCY

Amounts reflected in the financial statements are in South African Rand and at actual values. Financial values are rounded to the nearest one Rand.

1.3. GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1.4. COMPARATIVE INFORMATION

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatement of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.5 AMENDED DISCLOSURE POLICY

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the annual financial statements. The principal amendments to matters disclosed in the current financial statements include errors.

1.6. MATERIALITY

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the annual financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

1.7. PRESENTATION OF BUDGET INFORMATION

The presentation of budget information is prepared in accordance with GRAP 24 and based on the Municipal Budget and Reporting Regulations format. The comparison of budget and actual amounts are disclosed as separate additional financial statements, namely Statements of comparison of budget and actual amounts.

Budget information is presented on the accrual basis and is based on the same period as the actual amounts, i.e. 1 July 2020 to 30 June 2020. The budget information is therefore on a comparable basis to the actual amounts.

The comparable information includes the following:

- the approved and final budget amounts;
- actual amounts and final budget amounts;

Explanations for differences between the approved and final budget are included in the Statements of Comparison of Budget and Actual Amounts.

Explanations for material differences between the final budget amounts and actual amounts are included the Statements of Comparison of Budget and Actual Amounts. Material differences are being defined by Management as 10% of a specific line-item with a minimum of R1 million.

The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1.8. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

GRAP 18 Segment Reporting is effective from 1 April 2015. The implementation of GRAP 18 is delayed, in terms of Directive 5, for municipalities for the 2017/18 financial year. The implementation date of GRAP 18 is 1 April 2020.

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Municipality:

REFERENCE	TOPIC	EFFECTIVE DATE
GRAP 18	<p><u>Segment Reporting</u></p> <p>The objective of this Standard is to establish principles for reporting financial information by segments. The disclosure of this information will:</p> <ul style="list-style-type: none"> (a) enable users of the financial statements to better understand the entity's past performance, to evaluate the nature and financial effects of the activities in which it engages and the economic environments in which it operates; (b) identify the resources allocated to support the major activities of the entity and assist in making decisions about the allocation of resources; and (c) enhance the transparency of financial reporting and enable the entity to better discharge its accountability obligations. <p>The impact of the standard will result in additional disclosures being included in the financial statements, relating to reporting by geographical area and reporting of revenue and expenditure by segment. The mSCOA accounting system will be used to analyse items according to segments.</p>	1 April 2020
GRAP 34 (Revised – April 2020)	<p><u>Separate Financial Statements</u></p> <p>The objective of this Standards is to prescribe the accounting and disclosure requirements in controlled entities, joint ventures and associates when an entity prepares separate financial statements.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	1 April 2020
GRAP 35 (Revised – April 2020)	<p><u>Consolidated Financial Statements</u></p> <p>The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	1 April 2020
GRAP 36 (Revised – April 2020)	<p><u>Investments In Associates and Joint Ventures</u></p> <p>The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures</p>	1 April 2020

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

REFERENCE	TOPIC	EFFECTIVE DATE
	No significant impact expected as no such transactions or events are expected in the foreseeable future.	
GRAP 37 (Revised – April 2020)	<p><u>Joint Arrangements</u></p> <p>The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements)</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	1 April 2020
GRAP 38I (Revised – April 2020)	<p><u>Disclosure of Interest in Other Entities</u></p> <p>The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:</p> <p>a) the nature of, and risks associated with, its interest in controlled entities unconsolidated controlled entities, joint arrangements and associates, and structure entities that are not consolidated; and</p> <p>b) the effects of those interests on its financial position, financial performance and cash flows.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	1 April 2020
GRAP 104 (Revised – April 2020)	<p><u>Financial Instruments</u></p> <p>The objective of this Standard is to establish principles for recognising, measuring, presenting and disclosing financial instruments.</p> <p>The Municipality might need to revise the categories of financial instruments and the impairment model.</p>	Unknown
GRAP 110 (Revised – April 2020)	<p><u>Living and non-living resources</u></p> <p>The objective of this Standard is prescribing the recognition, measurement, presentation and disclosure requirements for living resources; and disclosure requirements for non-living resources.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	1 April 2020
IGRAP 20	<p><u>Accounting for Adjustments on Revenue</u></p> <p>The Interpretation clarifies the accounting for adjustments to:</p> <p>a) exchange and non-exchange revenue charged in terms of legislation or similar means; and</p> <p>b) interest and penalties that arise from revenue already recognised</p>	1 April 2020

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

REFERENCE	TOPIC	EFFECTIVE DATE
	as a result of the completion of a review, appeal, or objection process. No significant impact is expected as the Municipality's current treatment is already in line with the Interpretation.	

These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1.9. LEASES

1.9.1 *Municipality as Lessee*

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

1.9.2 *Municipality as Lessor*

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments received will give rise to an asset. The Municipality recognises the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1.10. UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

1.11. UNPAID CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

The following provisions are set for the creation and utilisation of grant receivables:

- Unpaid conditional grants are recognised as an asset when the grant is receivable.

1.12. PROVISIONS

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The Municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented.

(b) The Municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision is de-recognised.

1.13. EMPLOYEE BENEFITS

Defined contribution plans are post-employment benefit plans under which the Municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

1.13.1 Post-Retirement Medical Obligations

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 60% as contribution and the remaining 40% are paid by the members. For retired members, Council pays 70% as contribution and the remaining 30% are paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – Employee benefits (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

1.13.2 Long Service Awards

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically, unless circumstances change significantly in which case it is done annually, by independent qualified actuaries.

1.13.3 Staff Leave accrued

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term. Unused leave is being capped at 48 days.

Accumulated leave is vesting.

1.13.4 Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year-end for each employee.

1.13.5 Provision for Performance Bonuses

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrues to Section 57 employees. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

1.13.6 Pension and retirement fund obligations

The Municipality provides retirement benefits for its employees and councillors.

Defined contribution plans are post-employment benefit plans under which the Municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

The contributions to fund obligations for the payment of retirement benefits are recognised in the Statement of Financial Performance in the year they become payable.

The defined benefit funds, which are administered on a provincial basis, are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. The contributions and lump sum payments are recognised in the Statement of Financial Performance in the year they become payable. Sufficient information is not available to use defined benefit accounting for a multi-employer plan. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

1.13.7 Other Short-term Employee Benefits

When an employee has rendered service to the Municipality during a reporting period, the Municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

1.14. BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are not capitalised to the cost of that asset.

Under the benchmark treatment, borrowing costs are recognised as an expense in the period in which they are incurred, regardless of how the borrowings are applied.

1.15. PROPERTY, PLANT AND EQUIPMENT

1.15.1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and the cost or fair value of the item can be measured reliably. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the assets acquired is initially measured at fair value (the cost). If the acquired item's fair value is not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the Municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

1.15.2 Subsequent Measurement – Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits or service potential associated with the asset.

1.15.3 Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The annual depreciation rates are based on the following estimated useful lives:

Asset Class	Asset Sub-grouping	Useful Life (Yrs)
Land	None	Indefinite
Buildings	None	5 - 100
Infrastructure	Landfill Site	10 – 100
	Electricity	1 – 75
	Water	12 – 182
	Roads	1-120
	Security Measures	1 – 50
Community Assets	Cemeteries & Fencing	1 – 100

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Asset Class	Asset Sub-grouping	Useful Life (Yrs)
	Halls	5 -100
	Library	5- 100
	Buildings Other	5-100
	Parks and Gardens	1 - 50
	Sportfields and Stadia	1- 100
Leased Asset	None	3
Heritage	None	Indefinite
Other Assets	Computer Hardware	1 – 25
	Plant and Equipment	1 – 25
	Furniture and Other Office Equipment	1 – 40
	Markets	1 - 35
	Vehicles and Specialised Vehicles	1 – 55

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

1.15.4 De-recognition

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.15.5 Land and buildings and Other Assets – application of deemed cost (Directive 7)

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Land and Buildings the fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010. For Other Assets the depreciation cost method was used to establish the deemed cost as on 1 July 2010.

EMALAIHENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1.16. INTANGIBLE ASSETS

1.16.1 Initial Recognition

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

- is separable, i.e. is capable of being separated or divided from the Municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the Municipality intends to do so; or
- arises from binding arrangements from contracts, regardless of whether those rights are transferable or separable from the Municipality or from other rights and obligations.

The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the Municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the Municipality has the resources to complete the project;
- it is probable that the Municipality will receive future economic benefits or service potential; and
- the Municipality can measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value is not determinable, its deemed cost is the carrying amount of the asset(s) given up.

1.16.2 Subsequent Measurement – Cost Model

Intangible assets are subsequently carried at cost less accumulated amortisation and any accumulated impairments losses. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1.16.3 Amortisation and Impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over its estimated useful lives using the straight-line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

Intangible Assets	Years
Computer Software	2 - 10
Computer Software Licenses	2 - 10

1.16.4 De-recognition

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.16.5 Application of deemed cost (Directive 7)

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Intangible Assets the depreciated replacement cost method was used to establish the deemed cost as on 1 July 2010.

1.17. INVESTMENT PROPERTY

1.17.1 Initial Recognition

Investment property is recognised as an asset when, and only when:

- it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the Municipality, and
- the cost or fair value of the investment property can be measured reliably.

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use, is also classified as investment property.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is measured at cost.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

1.17.2 Subsequent Measurement – Cost Model

Subsequent to initial recognition, items of investment property are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

1.17.3 Depreciation and Impairment – Cost Model

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Investment Property	Years
Buildings	20 - 100

1.17.4 De-recognition

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.17.5 Application of deemed cost - Directive 7

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010.

1.18. HERITAGE ASSETS

1.18.1 Initial Recognition

A heritage asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance and is held and preserved indefinitely for the benefit of present and future generations.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

A heritage asset is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the asset will flow to the Municipality, and the cost or fair value of the asset can be measured reliably.

A heritage asset that qualifies for recognition as an asset, is measured at its cost. Where a heritage asset is acquired through a non-exchange transaction, its cost is deemed to be its fair value as at the date of acquisition.

1.18.2 Subsequent Measurement – Cost Model

After recognition as an asset, heritage assets are carried at its cost less any accumulated impairment losses.

1.18.3 Depreciation and Impairment

Heritage assets are not depreciated

Heritage assets are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

1.18.4 De-recognition

Heritage assets are derecognised when it is disposed or when there are no further economic benefits expected from the use of the heritage asset. The gain or loss arising on the disposal or retirement of a heritage asset is determined as the difference between the sales proceeds and the carrying value of the heritage asset and is recognised in the Statement of Financial Performance.

1.18.5 Application of deemed cost - Directive 7

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010.

1.19. IMPAIRMENT OF NON-FINANCIAL ASSETS

1.19.1 Cash-generating assets

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable amount.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

(a) External sources of information

- During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated.
- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

(b) Internal sources of information

- Evidence is available of obsolescence or physical damage of an asset.
- Significant changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

The re-designation of assets from a cash-generating asset to a non-cash generating asset or from a non-cash-generating asset to a cash-generating asset shall only occur

when there is clear evidence that such a re-designation is appropriate. A re-designation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the indications listed above.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

1.19.2 Non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

(a) External sources of information

- Cessation, or near cessation, of the demand or need for services provided by the asset.
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Municipality operates.

(b) Internal sources of information

- Evidence is available of physical damage of an asset.
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
- A decision to halt the construction of the asset before it is complete or in a usable condition.
- Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss is recognised in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches, depending on the nature of the asset in question:

- *depreciation replacement cost approach* - the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.
- *restoration cost approach* - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.
- *service unit approach* - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

An impairment loss is recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with another Standard of GRAP. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that Standard of GRAP.

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the Municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

impairment loss been recognised for the asset in prior periods. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.

1.20. INVENTORIES

1.20.1 *Initial Recognition*

Inventories comprise of current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and the cost of the inventories can be measured reliably. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

1.20.2 *Subsequent Measurement*

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

The basis of allocating cost to inventory items is the weighted average method.

1.21. FINANCIAL INSTRUMENTS

Financial instruments recognised on the Statement of Financial Position include receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and payables (both form exchange and non-exchange transactions) and non-current investments. The future utilization of Unspent Conditional Grants is evaluated in order to determine whether it is treated as financial instruments.

1.21.1 *Initial Recognition*

Financial instruments are initially recognised when the Municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. If finance charges in respect of financial assets and financial liabilities are significantly different from similar charges usually obtained in an open market transaction, adjusted for the specific risks of

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

the municipality, such differences are immediately recognised in the period it occurs, and the unamortised portion adjusted over the period of the loan transactions.

1.21.2 Subsequent Measurement

Financial assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial liabilities are categorised as either at fair value or financial liabilities carried at amortised cost. The subsequent measurement of financial assets and liabilities depends on this categorisation.

1.21.2.1 Receivables

Receivables are classified as financial assets at amortised cost and are subsequently measured at amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics

and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

1.21.2.2 Payables and Annuity Loans

Financial liabilities consist of payables and annuity loans. They are categorised as financial liabilities held at amortised cost, and are initially recognised at fair value

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

1.21.2.3 Cash and Cash Equivalents

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities carried at amortised cost.

1.21.2.4 Non-Current Investments

Investments which include investments in municipal entities and fixed deposits invested in registered commercial banks, are stated at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

1.21.3 De-recognition of Financial Instruments

1.21.3.1 Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Municipality has transferred substantially all the risks and rewards of the asset, or (b) the Municipality has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the old asset is derecognised and a new asset is recognised to the extent of the Municipality's continuing involvement in the asset.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Municipality could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Municipality's continuing involvement is the amount of the transferred asset that the Municipality may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

1.21.3.2 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

1.21.4 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

1.22 STATUTORY RECEIVABLES

Statutory receivables arise from legislation, supporting regulations, or similar means and require settlement by another entity in cash or another financial asset. Statutory receivables can arise from both exchange and non-exchange transactions.

1.22.1 Initial Recognition

Statutory receivables are recognised when the related revenue is recognised.

1.22.2 Measurement

The Municipality initially measures the statutory receivables at their transaction amount. The Municipality measure statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to reflect any:

- (a) interest or other charges that may have accrued on the receivable;
- (b) impairment losses; and
- (c) amounts derecognised.

The Municipality assesses at each reporting date whether there is any indication that a statutory receivable may be impaired. If there is an indication that a statutory receivable may be impaired, the Municipality measures the impairment loss as the difference

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable is reduced, through the use of an allowance account. The amount of the loss is recognised in the Statement of Financial Performance. In estimating the future cash flows, the Municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the Municipality discounts the estimated future cash flows using a rate that reflects the current risk free rate and any risks specific to the statutory receivable for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows. Any previously recognised impairment loss is adjusted by adjusting the allowance account. The amount of any adjustment is recognised in the Statement of Financial Performance.

1.22.3 Derecognition

The Municipality derecognises a statutory receivable when:

- (a) the rights to the cash flows from the receivable are settled, expire or are waived;
- (b) the Municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- (c) the Municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the Municipality:
 - (i) derecognise the receivable; and
 - (ii) recognise separately any rights and obligations created or retained in the transfer.

1.23. REVENUE

1.23.1 *Revenue from Non-Exchange Transactions*

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred, meet the criteria for recognition as an asset. A corresponding liability is recognised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. At the time of initial recognition the full amount of revenue is recognised. If the Municipality does not enforce its obligation to collect the revenue, this would be considered as a subsequent event. Collection charges are recognised when such

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

amounts are legally enforceable. Rebates and discounts are offset against the related revenue, in terms of iGRAP 1, as there is no intention of collecting this revenue.

Penalty interest on unpaid rates is recognised on a time proportionate basis as an exchange transaction.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the Municipality. Where public contributions have been received, but the Municipality has not met the related conditions, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the Municipality.

All unclaimed deposits are initially recognised as a liability until 12 months expires, when all unclaimed deposits into the Municipality's bank account will be treated as revenue. Historical patterns have indicated that minimal unidentified deposits are reclaimed after a period of twelve months. This assessment is performed annually at 30 June. Therefore the substance of these transactions indicate that even though the prescription period for unclaimed monies is legally three years, it is reasonable to recognise all unclaimed monies older than twelve months as revenue. Although unclaimed deposits are recognised as revenue after 12 months, the Municipality still keep record of these unclaimed deposits for three years in the event that a party should submit a claim after 12 months, in which case it will be expensed.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Revenue is measured at the fair value of the consideration received or receivable.

When, as a result of a non-exchange transaction, a Municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the present obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability will be recognised as revenue.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1.23.2 Revenue from Exchange Transactions

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable.

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- The Municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods.
- The Municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

At the time of initial recognition the full amount of revenue is recognised where the Municipality has an enforceable legal obligation to collect, unless the individual collectability is considered to be improbable. If the Municipality does not successfully enforce its obligation to collect the revenue this would be considered a subsequent event.

Service charges relating to electricity is based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Where the Municipality was unable to take the actual month's reading of certain consumers, a provisional estimate of consumption for that month will be created. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. It is estimated that pre-paid electricity is consumed within 5 to 7 days after date of purchase. The pre-paid electricity sold, but not consumed yet at year-end is disclosed as under Payables from Exchange Transactions in the Statement of Financial Position.

Service charges relating to refuse removal are recognised on an annual basis in advance by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse points per property.

Interest revenue is recognised using the effective interest rate method.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Revenue from the sale of goods is recognised when:

- Substantially all the risks and rewards in those goods are passed to the consumer; and
- The municipality seizes managerial involvement and control of the goods; and
- The amount of the revenue can be measured reliably; and
- It is probable that economic benefits or service potential associated with the transaction will flow to the municipality; and
- The costs incurred or to be incurred can be measured reliably.

Revenue arising out of situations where the Municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the Municipality as compensation for executing the agreed services.

Revenue is measured at the fair value of the consideration received or receivable.

The amount of revenue arising on a transaction is usually determined by agreement between the Municipality and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the Municipality.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable.

However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating;
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1.24. RELATED PARTIES

The Municipality resolved to formulate an accounting policy based on the disclosure requirements as per GRAP 20 – "Related Party Disclosures".

A related party is a person or an entity:

- with the ability to control or jointly control the other party.
- or exercise significant influence over the other party, or vice versa,
- or an entity that is subject to common control, or joint control.

The following are regarded as related parties of the Municipality:

- (a) A person or a close member of that person's family is related to the Municipality if that person:
 - has control or joint control over the Municipality.
 - has significant influence over the Municipality. Significant influence is the power to participate in the financial and operating policy decisions of the Municipality.
 - is a member of the management of the Municipality or its controlling entity.
- (b) An entity is related to the Municipality if any of the following conditions apply:
 - the entity is a member of the same Municipality (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others).
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an Municipality of which the other entity is a member).
 - both entities are joint ventures of the same third party.
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - the entity is a post-employment benefit plan for the benefit of employees of either the Municipality or an entity related to the Municipality. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
 - the entity is controlled or jointly controlled by a person identified in (a).
 - a person identified in (a) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the Municipality. A person is considered to be a close member of the family of another person if they:

- (a) are married or live together in a relationship similar to a marriage; or
- (b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Management (formerly known as "Key Management") includes all persons having the authority and responsibility for planning, directing and controlling the activities of the Municipality, including:

- (a) all members of the governing body of the Municipality;
- (b) a member of the governing body of an Municipality who has the authority and responsibility for planning, directing and controlling the activities of the Municipality;
- (c) any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the Municipality; and
- (d) the senior management team of the Municipality, including the chief executive officer or permanent head of the Municipality, unless already included in (a).

Management personnel include:

- (a) All directors or members of the governing body of the Municipality, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting Municipality being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

1.25. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.26. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

(measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.27. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.28. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability. A Contingent asset usually arise from unplanned or other unexpected events that are not wholly within the control of the entity and give rise to the possibility of an inflow of economic benefits or service potential to the entity.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities and assets.

1.29. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the annual financial statements:

1.29.1 *Post-retirement medical obligations and Long service awards*

The cost of post-retirement medical obligations and long service awards are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Major assumptions used are disclosed in note 3 of the annual financial statements. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

1.29.2 *Impairment of Receivables*

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

The payment rate is calculated as follows:

Receipts for the year/Opening balance + Annual levies + Adjustments

Municipal and Government accounts have 0% impairment as no risk prevails.

1.29.3 Property, Plant and Equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment.

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the assets.

The cost for depreciated replacement cost was determined by using either one of the following:

- cost of items with a similar nature currently in the Municipality's asset register;
- cost of items with a similar nature in other municipalities' asset registers, given that the other municipality has the same geographical setting as the Municipality and that the other municipality's asset register is considered to be accurate;
- cost as supplied by suppliers.

For deemed cost applied to land and buildings as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

1.29.4 Intangible Assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

For deemed cost applied to intangible assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the asset.

1.29.5 Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

1.29.6 Investment Property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

1.29.7 Revenue Recognition

Accounting Policy 1.23.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.23.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions.). Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1.29.8 Provision for Landfill Sites

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value at the reporting date of the expected future cash flows to rehabilitate the landfill site. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are recognised in the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.
- Government bond rates were used to calculate the effect of time value of money.

1.29.9 Staff leave accrued

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated. Unused leave is being capped at 48 days.

1.29.10 Provision for Performance bonuses

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

1.29.11 Pre-paid electricity estimation

Pre-paid electricity is only recognised as income once the electricity is consumed. The pre-paid electricity balance (included under payables) represents the best estimate of electricity sold at year-end that is still unused. The average pre-paid electricity sold per day during the year under review is used and the estimate is calculated using 5 days' worth of unused electricity.

1.29.12 Componentisation of Infrastructure assets

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

1.29.13 Impairments of assets – Capitalised Restoration Cost

Impairment charges relating to capitalised restoration costs are linked to fluctuations in the discount rate used to unwind the provision relating to this asset. This discount rate is linked to the prime interest rate and any movement in this rate will result in the impairment/reversal of impairment of the asset.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1.30. TAXES – VALUE ADDED TAX

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value Added Tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

1.31. CAPITAL COMMITMENTS

Capital commitments disclosed in the annual financial statements represents the contractual balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

1.32. EVENTS AFTER REPORTING DATE

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the annual financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

If non-adjusting events after the reporting date are material, the Municipality discloses the nature and an estimate of the financial effect.

1.33. DISCONTINUED OPERATIONS

Discontinued operation is a component of the Municipality that has been disposed of and:

- represents a distinguishable activity, group of activities or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
- is a controlled entity acquired exclusively with a view to resale.

To qualify as a discontinued operation, the disposal must occur within a single co-ordinated plan. Once the disposal plan has been approved, the Municipality reclassifies all related assets and liabilities associated with the discontinued operations as a separate line-item in the Statement of Financial Position. The Municipality subsequently measures and account for assets and liabilities associated with discontinued operations in accordance with the respective Standards of GRAP applicable to that asset or liability.

All revenue and expenditure associated with the discontinued operations is disclosed as a one line-item in the Statement of Financial Performance. Detail of the revenue and expenditure associated with the discontinued operations is disclosed in the notes.

EXAMPLE MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2. PROPERTY, PLANT AND EQUIPMENT

2.2 30 JUNE 2019

	Opening Balance	Correction of Error	Additions	Under Construction	Transfers	Disposals/Impairment	Closing Balance	Accumulated Depreciation and Impairment Losses			Carrying Value
								Cost/Revaluation	Depreciation	Transfers	
Land and Buildings											
Land	33 770 886	-	-	-	-	-	33 770 886	-	-	-	33 770 886
Buildings	30 902 535	-	-	-	2 836 984	-	30 902 535	4 039 979	-	-	25 373 985
Work in progress	5 213 579	-	-	-	2 636 984	-	8 356 473	-	-	-	3 050 473
	69 886 990	-	-	-	-	-	72 723 574	4 039 979	-	-	68 135 324
Infrastructure											
Infrastructure - Electricity	25 508 318	-	167 350	-	-	-	25 573 668	-2 352 749	-	-	13 642 191
Infrastructure - Road transport	370 482 751	-	13 813 181	-	-	-	304 277 942	2 113 366 831	-	-	228 573 480
Infrastructure - Drains	11 745 553	-	-	-	-	-	11 745 553	4 201 373	-	-	4 349 842
Infrastructure - Other	-	-	-	-	-	-	-	-	-	-	7 391 711
Work in progress	38 819 580	-	-	-	18 556 686	(13 613 191)	(9 549 698)	34 018 486	-	-	34 018 486
	446 535 301	-	13 980 541	18 556 686	(13 613 191)	(9 549 698)	465 708 549	227 529 552	-	-	245 054 512
Community Assets											
Community Facilities	10 468 877	-	-	-	-	-	10 486 877	1 263 218	-	-	1 751 575
Community Halls	40 565 817	-	7 275 277	-	-	-	47 852 984	4 169 583	-	-	4 672 011
Libraries	498 030	-	-	-	-	-	499 030	49 981	-	-	55 935
Parks & gardens	6 727 795	-	-	-	-	-	6 727 795	342 445	-	-	587 216
Buildings - Community	977 593	-	-	-	-	-	-	20 307	-	-	6 140 580
Recreational facilities	38 842 000	-	-	-	-	-	38 842 000	9 842 050	-	-	9 842 050
Sports fields & stadia	37 974 781	-	-	-	-	-	37 974 781	7 450 169	-	-	8 651 643
Work in progress	1 202 204	-	-	22 204 548	(7 275 277)	-	16 131 475	-	-	-	29 523 198
	138 300 058	-	7 275 277	22 204 548	(7 275 277)	-	150 504 637	23 184 200	-	-	16 131 475
30 JUNE 2019 (Continued)											
	Opening Balance	Correction of Error	Additions	Under Construction	Transfers	Disposals/Impairment	Closing Balance	Accumulated Depreciation and Impairment Losses			Carrying Value
								Cost/Revaluation	Depreciation	Transfers	
Other Assets											
Computers - hardware/equipment	2 747 825	-	85 544	-	-	(26 056)	2 807 512	1 203 133	-	-	(11 167)
Furniture and other office equipment	7 598 137	-	43 540	-	-	-	7 641 517	2 562 702	-	-	1 555 374
General vehicles	21 101 484	-	535 113	-	-	(663 022)	20 973 575	4 729 515	-	-	1 575 122
Materials	2 556 414	-	-	-	-	-	2 556 414	339 707	-	-	5 652 246
Plant & equipment	1 158 313	-	20 700	-	-	-	1 179 013	459 266	-	-	2 179 432
Other	358 190	-	162 390	-	-	-	520 580	67 487	-	-	648 157
	35 520 363	-	847 287	-	-	(663 078)	35 678 572	9 432 861	-	-	11 066
Leases											
Furniture and Office Equipment	1 205 956	-	-	-	-	-	1 205 956	93 680	-	-	(145 738)
	1 205 956	-	-	-	-	-	1 205 956	69 080	-	-	468 085
Total	691 448 688	-	22 103 105	43 598 128	(21 058 483)	(10 228 775)	725 822 688	254 523 071	-	-	134 904 398

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
2.3 Property, Plant and Equipment which is in the process of being constructed or developed:		
Infrastructure Assets	29 882 298	34 013 487
Roads	22 209 076	26 367 785
Electricity	7 474 417	7 474 417
Solid Waste	198 804	171 304
Community Assets	21 285 209	16 131 475
Other Assets	8 050 473	8 050 473
Total Property, Plant and Equipment under construction	59 217 981	58 195 435

The movements for the year can be reconciled as follows:

Balance at beginning of year	58 195 428	45 235 483
Expenditure during the year	28 482 457	43 588 131
Assets unbundled during the year	(27 459 905)	(21 088 468)
Asset derecognised	-	(9 549 698)
Total	59 217 981	58 195 428

2.4 Property, Plant and Equipment that is taking a significantly longer period of time to complete than expected:

Infrastructure Assets	7 474 417	7 474 417
Electricity	7 474 417	7 474 417
Total	7 474 417	7 474 417

Due to unforeseen and unplanned events of public protests and unsatisfactory performance by the contractor the WIP projects took longer than anticipated. The contract with the contractor has since been terminated. The project has since been halted. Refer to note 2.5

2.5 Property, Plant and Equipment where construction or development has been halted:

Infrastructure Assets	7 474 417	17 024 115
Electricity	7 474 417	7 474 417
Solid Waste	-	9 549 698
Total	7 474 417	17 024 115

The project was incomplete because the service provider appointed to supply and deliver material did not complete the delivery of materials required. The project was then taken over by the municipality as an in house project. The estimated outstanding material cost and labour according to initial quantities is R 1 160 840. The remaining work is estimated to be completed by 29 February 2019 using in-house construction team.

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R	
2.6 Expenditure incurred to repair and maintain Property, Plant and Equipment:			
Other materials	1 509 559	1 685 410	
Contracted Services	<u>5 783 060</u>	3 265 335	
Total Repairs and Maintenance	<u>7 292 619</u>	<u>4 950 744</u>	
2.7 Assets pledged as security:			
Leased Property, Plant and Equipment of R 737 890 is secured for leases as set out in Note 11.			
2.8 Third party payments received for losses incurred:			
Payments received (Excluding VAT)	1 263 166	1 872 115	
2.9 Contractual commitments for acquisition of Property, Plant and Equipment:			
Approved and contracted for:			
Infrastructure	50 415 547	31 525 312	
Community	18 843 798	-	
Other	5 580 863	1 081 568	
	<u>25 990 887</u>	<u>30 443 724</u>	
Total	<u>50 415 547</u>	<u>31 525 312</u>	
This expenditure will be financed from:			
Government Grants	50 415 547	31 525 312	
Total	<u>50 415 547</u>	<u>31 525 312</u>	
2.10 Change in accounting estimate			
The useful life of certain plant and equipment were estimated in 2020 to be 5 Years (For Assets in Good Condition), 4 Years (Assets in Fair Condition), 2 Years (For Assets in Poor and Very Poor Condition). The effect of this revision has decreased the depreciation charges for the current period by R50 646. The effect on future years is as follows:			
	2020	2021	2022
Effect on Property, Plant and Equipment	(50 646)	50 777	50 777
	2020 R	2019 R	
2.11 Gains/(Loss) on Sale of Fixed Assets			
Proceeds	22 095	22 095	
Carrying value of disposals	1 958	543 340	
Gain / (Loss)	<u>(20 137)</u>	<u>521 245</u>	

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
2.12 Derecognition of fixed assets		

Derecognition of fixed assets

1 488 693

9 549 698

2020:

The assets derecognised relate to assets that could not be physically verified during the annual asset verification process.

2019:

The Lady Frere Landfill site has been put on hold indefinitely due to community protests against the development of the site. The land identified forms part of a land claim. Emalahleni Municipality will not proceed with development until a new area has been identified and agreed upon by the community.

The municipality has assessed the potential to receive future economic benefits or service potential from the landfill site and has determined that the likelihood thereof is remote. As a result the municipality deemed it prudent to derecognise the landfill site.

	2020 R	2019 R
3. INVESTMENT PROPERTY		
3.1 Net Carrying amount at 1 July	4 149 487	4 151 887
Cost/Valuation		
Buildings	4 226 300	4 226 300
Land	240 000	240 000
Accumulated Depreciation	3 988 300	3 988 300
	(76 813)	(74 413)
Depreciation for the year	(2 407)	(2 400)
Net Carrying amount at 30 June	4 147 081	4 149 487
Cost	4 226 300	4 226 300
Accumulated Depreciation	(79 219)	(76 813)
3.2 Revenue from Investment Property		
Revenue derived from the rental of Investment Property	<u>658 909</u>	<u>655 477</u>

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
4. INTANGIBLE ASSETS		
4.1 Net Carrying amount at 1 July	401 033	455 962
Cost	1 207 831	1 207 831
Accumulated Amortisation	(806 798)	(751 869)
Amortisation	(55 068)	(54 930)
Net Carrying amount at 30 June	345 964	401 033
Cost	1 207 831	1 207 831
Accumulated Amortisation	(381 867)	(806 798)

No intangible asset were assed having an indefinite useful life.

There are no internally generated intangible assets at reporting date.

There are no intangible assets whose title is restricted.

There are no intangible assets pledged as security for liabilities.

There are no contractual commitments for the acquisition of intangible assets.

	2020 R	2019 R
5. HERITAGE ASSETS		
5.1 Net Carrying amount at 1 July	182 536	182 536
Cost	182 536	182 536
Net Carrying amount at 30 June	182 536	182 536
Cost	182 536	182 536

There are no restrictions on the realisability of Heritage Assets or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop Heritage Assets or for repairs, maintenance or enhancements.

There are no Heritage Assets pledged as security for liabilities.

There are no Heritage Assets that are used by the municipality for more than one purpose.

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
6. RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Electricity	10 449 698	9 183 615
Property Rentals	4 098 283	3 321 563
Waste Management	59 713 363	49 739 265
Chris Hani Debtor	1 140 309	1 140 309
Total: Receivables from exchange transactions (before provision)	75 401 654	63 384 752
Less: Provision for Debt Impairment	(67 158 763)	(52 257 158)
Total: Receivables from exchange transactions (after provision)	8 242 891	11 127 594

Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of consumer debtors are not performed in terms of GRAP 104 on initial recognition.

The fair value of receivables approximate their carrying value.

(Electricity): Ageing

Current (0 - 30 days)	556 810	525 303
31 - 60 Days	346 127	391 548
61 - 90 Days	553 498	400 146
+ 90 Days	8 993 264	7 766 618
Total	10 449 698	9 183 615

Total

<u>(Property Rentals): Ageing</u>		
Current (0 - 30 days)	73 730	75 073
31 - 60 Days	73 403	74 657
61 - 90 Days	73 064	74 218
+ 90 Days	3 878 086	3 097 615
Total	4 098 283	3 321 563

Total

<u>(Waste Management): Ageing</u>		
Current (0 - 30 days)	1 057 612	2 896 658
31 - 60 Days	1 038 514	750 104
61 - 90 Days	1 023 401	741 481
+ 90 Days	56 593 636	45 351 022
Total	59 713 363	49 739 265

Total

<u>(Chris Hani Debtor): Ageing</u>		
Current (0 - 30 days)	1 140 308	1 140 308
+ 90 Days	1 140 309	1 140 308
Total		

<u>(Total): Ageing</u>		
Current (0 - 30 days)	1 688 352	3 597 035
31 - 60 Days	1 458 044	1 216 308
61 - 90 Days	1 649 962	1 215 845
+ 90 Days	70 605 295	57 355 564
Total	75 401 654	63 384 752

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
<u>Reconciliation of Provision for Debt Impairment</u>		
Balance at beginning of year	52 257 158	42 727 516
Contribution to provision	14 901 605	9 529 642
Balance at end of year	67 158 763	52 257 158

The total amount of this provision is R 67 158 763 (2019: R52 257 158) and consist of:

Services	63 254 171	49 359 584
Other Debtors	3 904 591	2 897 574
Total Provision for Debt Impairment on Receivables from exchange transactions	67 158 763	52 257 158

Ageing of amounts past due but not impaired:

1 month past due	1 458 044	1 216 308
2+ months past due	5 096 495	6 314 251
	6 554 539	7 530 559

Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.

	2020 R	2019 R
7. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS		
Taxes - Rates	29 764 706	25 379 543
Control, Clearing and Interface Accounts	-	49 311
Unauthorised debit orders	700 299	0
Other Receivables	114 235	8 634
	30 579 240	25 437 487
Less: Provision for Debt impairment	(22 660 959)	(19 126 500)
Total Receivables from non-exchange transactions	7 918 281	6 310 987

The fair value of other receivables approximate their carrying value.

Rates debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of rates debtors are not performed in terms of GRAP 104 on initial recognition.

(Rates): Ageing

Current (0 - 30 days)	163 354	165 478
31 - 60 Days	595 826	589 906
61 - 90 Days	579 246	567 139
+ 90 Days	29 426 280	24 057 020
Total	29 764 706	25 379 543

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
<u>Reconciliation of Provision for Debt Impairment</u>		
Balance at beginning of year	19 126 500	16 876 078
Contribution to provision	3 534 458	2 250 422
Balance at end of year	<u>22 660 958</u>	<u>19 126 500</u>

The total amount of this provision is R 22 660 958 (2019: R 19 126 500) and consist of:

Taxes	22 660 958	19 126 500
Total Provision for Debt Impairment on Trade Receivables from non-exchange transactions	<u>22 660 958</u>	<u>19 126 500</u>

Ageing of amounts past due but not impaired:

1 month past due	595 828	589 906
2+ months past due	6 344 567	5 497 659
	<u>6 940 394</u>	<u>5 087 564</u>

The provision for doubtful debts on debtors (loans and receivables) exists due to the possibility that not all debts will be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position date as financial assets with similar credit risk characteristics and collectively assessed for impairment.

Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.

The outstanding fine receivable balance at year end is reduced to its recoverable amount by recognising a provision for impairment against the receivable raised. This is considered to be a subsequent event. The provision for impairment is based on current and past collection rates applicable to fines.

	2020 R	2019 R
8. OPERATING LEASE ARRANGEMENTS		
8.1 The Municipality as Lessor		
Operating Lease Asset	28 465	50 939
<u>Reconciliation</u>		
Balance at the beginning of the year	50 939	68 448
Movement during the year	(21 474)	(17 510)
Balance at the end of the year	<u>28 465</u>	<u>50 939</u>
At the Statement of Financial Position date, where the municipality acts as a lessor under operating leases, it will receive operating lease income as follows:		
Payable with one year	107 876	93 885
Payable within two to five years		107 876
Total Operating Lease Arrangements	107 876	207 761

This operating lease income determined from contracts that have a specific condition income and does not include leases which has a undetermined conditional income.

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
9. TAXES		
9.1 VAT Payable	(6 001 305)	(4 017 509)
Less: Contribution to Provision for Doubtful Debt Impairment	4 478 692	2 668 773
Total VAT Payable	(1 522 613)	(1 348 736)

9.2 VAT Receivable	4 412 759	5 433 789
Total VAT Receivable	4 412 759	5 433 789
9.3 Net VAT (Payable)/Receivable	2 890 146	4 085 053

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

	2020 R	2019 R
10. BANK ACCOUNTS		
10.1 Cash and Cash Equivalents		
Bank Accounts	3 974 509	1 415 640
Call Investment Accounts	1 816 153	2 728 630
Cash Floats	470	470
Total Cash and Cash Equivalents - Assets	5 791 132	4 144 640

The municipality has the following bank accounts:

Current Accounts

Standard Bank - Current Account - 082-665-958	2 126 300	24 420
Standard Bank - Current Account - 082-630-631	1 848 209	515 678
First National Bank - Current Account - 620-4898-6428	-	875 542
	3 974 509	1 415 640

Call Deposits and Investments

Investec Account Number: 451/465258	993 286	938 846
First National Bank Account Number: 74368334164	-	257 548
First National Bank Account Number: 74781667110	-	14 244
Standard Bank Account Number: 08 879 9697 - 012	11 318	11 105
Standard Bank Account Number: 08 879 9697 - 001	202 057	202 057
ABSA Account Number: 20-7851-7639	287 555	406 616
Standard Bank Account Number: 08 879 9 697-022	321 937	138 941
Standard Bank Account Number: 08 879 9697 - 020	-	302 140
Standard Bank Account Number: 061336637	1 816 153	487 335

Details of current accounts are as follow:

Standard Bank - Current Account - 082-665-958	24 420	2 115 668
Cash book balance at beginning of year	2 126 300	24 420
Cash book balance at end of year	2 126 300	2 115 668
Bank statement balance at beginning of year	24 420	24 420
Bank statement balance at end of year	2 126 300	24 420

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
Standard Bank - Current Account - 082-630-631		
Cash book balance at beginning of year	515 678	977 032
Cash book balance at end of year	<u>1 848 209</u>	<u>515 678</u>
Bank statement balance at beginning of year	515 678	977 032
Bank statement balance at end of year	<u>1 848 209</u>	<u>515 678</u>

Details of call investment accounts are as follow:

First National Bank - Current Account - 620-4898-6428		
Cash book balance at beginning of year	875 542	170 528
Cash book balance at end of year	<u>-</u>	<u>875 542</u>
Bank statement balance at beginning of year	875 542	170 528
Bank statement balance at end of year	<u>-</u>	<u>875 542</u>

11. LONG-TERM BORROWINGS

	2020 R	2019 R
Capitalised Lease Liability .. At amortised cost	371 872	779 237
Less: Current Portion transferred to Current Liabilities	371 872	779 237
Capitalised Lease Liability - At amortised cost	(371 872)	(407 365)
Total Long-term Borrowings	(371 872)	(407 365)
	-	371 872
	-	371 872

11.1 The obligations under finance leases are scheduled below:

	Minimum payments
Amounts payable under finance leases:	
Payable within one year	389 128
Payable within two to five years	<u>-</u>
	389 128
Less: Future finance obligations	(17 256)
Present value of finance lease obligations	371 872
	779 237

The capitalised lease liability consist out of the following contracts:

Supplier	Description of leased item	Effective interest rate	Annual Escalation	Lease Term	Maturity Date
Xerox C405	4 x copiers	6,25%	0%	3 Years	30/04/2021
Xerox C7020/5	4 x copiers	3,17%	0%	3 Years	30/04/2021
Xerox WC7225	2 x copiers	6,25%	0%	3 Years	30/04/2021
Xerox C8070	4 x copiers	5,02%	0%	3 Years	30/04/2021
Xerox D95	1 copier	5,02%	0%	3 Years	30/04/2021

Refer to Appendix A for descriptions, maturity dates and effective interest rates of structured loans and finance.

Hire Purchases and Leases are secured by property, plant and equipment - Note 2

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
12. NON-CURRENT PROVISIONS		
Provision for Rehabilitation of Landfill-sites	<u>2 495 333</u>	<u>1 836 717</u>
Total Non-current Provisions	<u><u>2 495 333</u></u>	<u><u>1 836 717</u></u>
12.1 Landfill Sites		
Balance 1 July	12 811 980	12 207 164
Change in estimate	507 625	604 816
Unwinding of discounted interest	537 511	-
Total provision 30 June	<u>13 857 116</u>	<u>12 811 980</u>
<u>Lese:</u> Transfer of Current Portion to Current Provisions - Note 14	(11 361 783)	(10 975 263)
Balance 30 June	<u><u>2 495 333</u></u>	<u><u>1 836 717</u></u>

The estimated rehabilitation costs for each of the existing sites are based on the current rates for construction costs. The assumptions used by the experts are as follows:
The change in estimate is due to the increase in the Indwe site from 1005m² to 1687m²

The rate for the levelling layers are based on import requirements from commercial sources.
CCL replaced by GCL due to lack of good quality clay from on-site or nearby sources.

The rate for the confining and topsoil layers are based on sourcing from on-site or nearby sources.

Rehabilitation cost for the Indwe landfill is calculated for this report, based on assumptions described. Further confirmation of site closure requirements is expected to be detailed by DEDEAT, but until such time the site has been evaluated with the assumption that it must still be rehabilitated.

	Dordrecht	Indwe	Lady Frere
Area (m ²)	10 287	1 687	8 698
Preliminary and general (Rand)	543 399	143 357	401 624
Site Clearance (Rand)	33 021	5 415	21 501
Storm Water Control Measure (Rand)	340 457	433 595	532 341
Capping (Rand)	2 308 098	415 044	1 908 376
Gas Management (Rand)	316 292	159 168	229 753
Leechate Management (Rand)	1 040 698	10 757	10 757
Fencing (Rand)	378 772	320 894	344 484
Other costs (Rand)	528 797	116 734	327 045
Contingencies (Rand)	436 257	95 305	269 812
Engineering (Rand)	264 067	294 063	254 137
Site Supervision (Rand)			

The municipality has an obligation to rehabilitate landfill sites at the end of the expected useful life of the asset. The estimate cost and date of decommission of the sites are as follows:

Location	Estimated decommission date	2020	2019
		R	R
Lady Frere landfill site is located approximately 2.0km west off Indwe road R 394	30/06/2018	4 465 924	4 365 171
Dordrecht landfill site is located off R56 about 900m after the Dordrecht town to Queenstown Route	11/09/2018	6 895 858	6 610 092
Indwe landfill site is located east off R56 approximately 260m before the town of Indwe	31/12/2021	<u>2 495 333</u>	<u>1 836 718</u>
		<u><u>2 495 333</u></u>	<u><u>1 836 718</u></u>
		<u><u>13 857 116</u></u>	<u><u>12 811 980</u></u>

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
13. NON-CURRENT EMPLOYEE BENEFITS		
Provision for Post Retirement Health Care Benefits	7 098 000	7 705 943
Provision for Long Service Awards	2 818 000	2 551 638
Total Non-current Employee Benefits	9 916 000	10 257 581
 <i><u>Post Retirement Health Care Benefits</u></i>		
Balance 1 July	7 736 886	7 077 422
Contribution for the year	864 966	851 419
Interest Cost	759 051	690 456
Amounts paid	(31 265)	(28 648)
Actuarial Loss/(Gain)	(2 197 638)	(853 763)
Total provision 30 June	7 132 000	7 736 886
<u>Less:</u> Transfer of Current Portion to Current employee benefits - Note 15	(34 000)	(30 943)
Balance 30 June	7 098 000	7 705 943
 <i><u>Long Service Awards</u></i>		
Balance 1 July	2 933 325	2 335 595
Contribution for the year	592 554	500 956
Interest Cost	221 617	180 753
Amounts paid	(207 931)	(174 029)
Actuarial Loss/(Gain)	(126 995)	80 050
Total provision 30 June	3 413 000	2 933 325
<u>Less:</u> Transfer of Current Portion to Current employee benefits - Note 15	(595 000)	(381 687)
Balance 30 June	2 818 000	2 551 638
 13.1 Provision for Post Retirement Health Care Benefits		
The Post Retirement Health Care Benefit Plan is a defined benefit plan, of which the members are made up as follows:		
In-service (employee) members	95	95
In-service (employee) non-members	124	124
Continuation members (e.g. Retirees, widows, orphans)	1	1
Total Members	220	224
 The liability in respect of past service has been estimated to be as follows.		
In-service members	5 084 000	5 612 019
In-service non-members	1 659 000	1 710 892
Continuation members	389 000	413 975
Total Liability	7 132 000	7 736 886
 The liability in respect of periods commencing prior to the comparative year has been estimated as follows:		
In-service members	3 743 586	4 057 804
In-service non-members	1 210 493	1 408 839
Continuation members	787 231	1 003 819
Total Liability	5 741 310	6 468 462

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

Bonitas;
Hosmed
LA Health
Samwumed
Key health

The Current-service Cost for the ensuing year is estimated to be R864 966, whereas the Interest Cost for the next year is estimated to be R723 000.

	2020 %	2019 %
--	-----------	-----------

Key actuarial assumptions used:

i) Rate of interest

Discount rate	11,36%	9,80%
Health Care Cost Inflation Rate	7,29%	7,52%
Net Effective Discount Rate	3,79%	2,12%

The discount rate used is a composite of all government bonds and is calculated using a technique known as "bootstrapping".

ii) Mortality rates

The PA 90 ultimate table, rated down by 1 year of age was used by the actuaries.

iii) Normal retirement age

It has been assumed that in-service members will retire at age 60 for females and 65 for males, which then implicitly allows for expected rates of early and ill-health retirement.

iv) Expected rate of salary increases

2017/2018 - Average CPI (Feb 2016 – Jan 2017) + 1 per cent

The three-year Salary and Wage Collective Agreement ends on 30 June 2018.

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	7 132 000	7 736 886
Fair value of plan assets	-	-
Net liability/(asset)	7 132 000	7 736 886

Reconciliation of present value of fund obligation:

Present value of fund obligation at the beginning of the year	7 736 886	7 077 422
Total expenses	1 592 752	1 513 227
Current service cost	884 966	851 419
Interest Cost	759 051	690 456
Benefits Paid	(31 265)	(28 648)
Actuarial (gains)/losses	(2 197 638)	(853 783)
Present value of fund obligation at the end of the year	7 132 000	7 736 886

Sensitivity Analysis on the Accrued Liability on 30 June 2020

	In-service members liability (Rm)	Continuation members liability (Rm)	Total liability (Rm)
Assumption			
Central Assumptions	6,743	0,389	7,132

The effect of movements in the assumptions are as follows:

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	Change	In-service members	Continuation members	Total Liability	% change
		Liability (Rm)	Liability (Rm)	(Rm)	
Assumption					
Health care inflation	1%	8,101	0,423	8,524	20,00%
Health care inflation	-1%	5,665	0,358	6,023	-16,00%
Discount rate	1%	5,710	0,380	6,070	-15,00%
Discount rate	-1%	8,059	0,422	8,481	19,00%
Post-employment mortality	+1 year	6,567	0,375	6,942	-3,00%
Post-employment mortality	-1 year	6,917	0,402	7,319	3,00%
Average retirement age	-1 year	7,485	0,389	7,854	10,00%
Continuation of membership at retirement	-10%	4,990	0,389	5,379	-25,00%

Sensitivity Analysis on Current-Service and Interest Cost for the year ending 30 June 2020

	Current Service Cost (R)	Interest Cost (R)	Total (R)		
				% change	
Assumption					
Central Assumptions	865 000	759 100	1 624 100		

The effect of movements in the assumptions are as follows:

	Change	Current Service Cost (R)	Interest Cost (R)	Total (R)	% change
Assumption					
Health care inflation	1%	895 000	986 000	1 881 000	22,00%
Health care inflation	-1%	588 000	682 000	1 270 000	-17,00%
Discount rate	1%	600 000	748 000	1 348 000	-12,00%
Discount rate	-1%	882 000	877 000	1 759 000	15,00%
Post-employment mortality	+1 year	704 000	787 000	1 491 000	-3,00%
Post-employment mortality	-1 year	740 000	830 000	1 570 000	3,00%
Average retirement age	-1 year	799 000	890 000	1 689 000	10,00%
Continuation of membership at retirement	-10%	546 000	609 000	1 155 000	-25,00%

2020
Rm 2019
Rm

Experience adjustments were calculated as follows:

Liabilities: (Gain) / loss	(0,143)	0,324
----------------------------	---------	-------

The liability in respect of periods commencing prior to the comparative year has been estimated as follows:

2018
Rm

Liabilities: (Gain) / loss	0,018
----------------------------	-------

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2020 R	2019 R
-----------	-----------

13.2 Provision for Long Service Bonuses

The Long Service Bonus plans are defined benefit plans. As at year end, 218 employees were eligible for Long Service Bonuses.

The Current-service Cost for the ensuing year is estimated to be R592 984, whereas the Interest Cost for the next year is estimated to be R564 000.

Key actuarial assumptions used:	%	%
i) Rate of interest		
Discount rate	6,99%	8,07%
General Salary Inflation (long-term)	3,74%	5,52%
Net Effective Discount Rate applied to salary-related Long Service Bonuses	3,13%	2,42%

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	3 413 001	2 933 326
-----------------------------------	-----------	-----------

Reconciliation of present value of fund obligation:

Present value of fund obligation at the beginning of the year	2 933 326	2 335 536
Total expenses	608 670	507 680
Current service cost	592 984	500 956
Interest Cost	221 617	180 753
Benefits Paid	(207 931)	(174 029)
Actuarial (gains)/losses	(126 995)	66 050
Present value of fund obligation at the end of the year	<u>3 413 001</u>	<u>2 933 326</u>

Sensitivity Analysis on the Accrued Liability on 30 June 2020

Assumption	Change	Liability (Rm)	% change
Central assumptions		3 413 000	
General salary inflation	1%	3 601 000	6%
General salary inflation	-1%	3 242 000	-5%
Discount rate	1%	3 235 000	-5%
Discount rate	-1%	3 610 000	6%
Average retirement age	-2 yrs	3 547 000	4%
Average retirement age	2 yrs	3 285 000	-4%
Withdrawal rates	x2	2 717 000	-20%
Withdrawal rates	x0.5	3 885 000	14%

Sensitivity Analysis on Current-Service and Interest Cost for the year ending 30 June 2020

Assumption	Current Service Cost (R)	Interest Cost (R)	Total (R)
Central Assumptions	593 000	221 600	814 600

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

The effect of movements in the assumptions are as follows:

Assumption	Change	Current Service Cost (R)	Interest Cost (R)	Total (R)	% change
General earnings inflation rate	1%	634 900	235 200	870 100	7%
General earnings inflation rate	-1%	555 100	209 200	764 300	-6%
Discount rate	1%	559 009	234 700	793 700	-3%
Discount rate	-1%	631 200	206 700	837 900	3%
Average retirement age	+2 yrs	613 500	231 000	844 500	4%
Average retirement age	-2 yrs	573 200	213 600	786 800	-3%
Withdrawal Rate	x 0.5	711 200	257 100	968 300	19%
				2020	2019
				Rm	Rm

Experience adjustments were calculated as follows:

Liabilities: (Gain) / loss	166 761	-98 060
Assets: Gain / (loss)		

The liability in respect of periods commencing prior to the comparative year has been estimated as follows:

	2018 Rm	2017 Rm	2016 Rm
Liabilities: (Gain) / loss	1 335 596	1 848 866	1 605 773

13.3 Retirement funds

The Municipality requested detailed employee and pensioner information as well as information on the Municipality's share of the Pension and Retirement Funds' assets from the fund administrator. The fund administrator confirmed that assets of the Pension and Retirement Funds are not split per participating employer. Therefore, the Municipality is unable to determine the value of the plan assets as defined in GRAP 25.

As part of the Municipality's process to value the defined benefit liabilities, the Municipality requested pensioner data from the fund administrator. The fund administrator claim that the pensioner data to be confidential and were not willing to share the information with the Municipality. Without detailed pensioner data the Municipality was unable to calculate a reliable estimate of the accrued liability in respect of pensioners who qualify for a defined benefit pension.

Therefore, although the Cape Joint Retirement Fund is a Multi Employer fund defined as defined benefit plan, it will be accounted for as defined contribution plan. All the required disclosure has been made as defined in GRAP 25.31.

2020 R	2019 R
-----------	-----------

CAPE JOINT RETIREMENT FUND

The contribution rate paid by the members (9.0%) and Council (18.0%). The last statutory valuation performed as at 30 June 2017 revealed that the assets of the fund amounted to R21,359,000,000 (30 June 2016: R20,075,000,000), with funding levels of 127.3% and 100% (30 June 2016: 118.0% and 100%) for the Pensions Account and the Share Account respectively. The Preservation Pension Account showed a surplus of R0 and was 100% funded for both 2017 & 2016. The contribution rate paid by the members (7.50%/9%) and the municipalities (19.50%/18%) is sufficient to fund the benefits accruing from the fund in the future. The actuary certified that the structure of the assets is appropriate relative to the nature of the liabilities, given normal circumstances and that the Fund is in a sound financial condition as at the valuation date.

Contributions paid recognised in the Statement of Financial Performance	6 787 542	6 220 816
---	-----------	-----------

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2020 R	2019 R
-----------	-----------

DEFINED CONTRIBUTION FUNDS

Council contribute to the Government Employees Pension Fund, Municipal Council Pension Fund, IMATU Retirement Fund and SAMWU National Provident Fund which are defined contribution funds. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

Contributions paid recognised in the Statement of Financial Performance

Sala Pension Fund	381 135	364 214
Municipal Councillors Pension Fund	2 917 625	1 666 224
SAMWU National Provident Fund	1 006 892	941 492
	<hr/>	<hr/>
	4 305 652	2 971 930

2020 R	2019 R
-----------	-----------

14. PROVISIONS

Current Portion of Rehabilitation of Landfill Sites - Note 12	11 361 783	10 975 263
Total Provisions	<hr/>	<hr/>

2020 R	2019 R
-----------	-----------

15. CURRENT EMPLOYEE BENEFITS

Provision for Performance Bonuses	79 350	89 111
Staff Bonuses accrued	1 910 780	1 762 210
Staff leave accrued	10 005 224	8 207 067
Compensation for Injuries On Duty	451 119	431 016
Current Portion of Non-Current Employee Benefits	629 000	412 630
	<hr/>	<hr/>
Current Portion of Post Retirement Benefits - Note 13	34 000	30 943
Current Portion of Long-Service Provisions - Note 13	595 000	381 687
Total Provisions	<hr/>	<hr/>
	13 075 473	10 902 034

The movement in current employee benefits are reconciled as follows:

15.1 Performance Bonuses

Balance at beginning of year	89 112	1 186 690
Contribution to current portion	18 113	(1 097 578)
Expenditure incurred	(27 375)	-
Balance at end of year	<hr/>	<hr/>
	79 350	89 112

Performance bonuses are being paid to the Municipal Manager and Directors after an evaluation of performance by the council. There is no possibility of reimbursement.

15.2 Staff Bonuses

Balance at beginning of year	1 762 210	1 716 688
Contribution to current portion	3 896 032	3 445 502
Expenditure incurred	(3 747 462)	(3 399 980)
Balance at end of year	<hr/>	<hr/>
	1 910 780	1 762 210

Bonuses are being paid to all municipal staff, excluding section 57 employees. The balance at year end represent the portion of the bonus that have already vested for the current salary cycle. There is no possibility of reimbursement.

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
15.3 Staff Leave		
Balance at beginning of year	8 207 067	6 259 778
Contribution to current portion	2 726 589	2 597 348
Expenditure incurred	(928 412)	(650 059)
Balance at end of year	10 005 224	8 207 087

Staff leave accrued to employees according to collective agreement. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave. There is no possibility of reimbursement.

15.4 Compensation for Injuries On Duty

	2020 R	2019 R
Balance at beginning of year	431 016	397 933
Contribution to current portion	417 977	402 192
Expenditure incurred	(397 873)	(369 109)
Balance at end of year	451 119	431 016

The balance on the compensation for injuries on duty contribution represents the current liability of the municipality that has not yet been paid over to the relevant authorities. There is no possibility of reimbursement.

16. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

	2020 R	2019 R
Trade Payables	1 327 547	5 428 812
Third party payables (Payroll)	184 164	7 813
Pre- paid electricity paid in advance	205 447	188 710
Advance payments debtors-billing	417 583	420 850
Sundry Deposits	144 635	63 976
Sundry Creditors	76 565	78 352
Retention and Guarantees	10 504 863	8 655 783
Total Trade Payables	12 860 803	14 844 296

Payables are being recognised net of any discounts.

Payables are being paid within 30 days as prescribed by the MFMA. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other payables on initial recognition is not deemed necessary.

The carrying value of trade and other payables approximates its fair value.

All payables are unsecured.

Sundry deposits include Hall, Builders and Housing Deposits.

	2020 R	2019 R
17. UNSPENT TRANSFERS AND SUBSIDIES		
Unspent Transfers and Subsidies	1 488 103	1 533 060
Provincial Government	342 573	466 761
District Municipalities	1 146 530	1 066 309
Total Unspent Transfers and Subsidies	1 488 103	1 533 060

See appendix "D" for reconciliation of grants from other spheres of government. The Unspent Grants are cash-backed by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

Unspent grants can mainly be attributed to projects that are work in progress on the relevant financial year-ends.

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
18. PAYABLES FROM NON-EXCHANGE TRANSACTIONS		
Out of court settlement - Magwayi	5 833 789	10 567 503
Total Payables from Non-exchange Transactions	5 833 789	10 567 503
<u>Disclosed as follows:</u>		
Current liabilities	5 833 789	5 283 752
Non-current liabilities	-	5 283 751
Total	5 833 789	10 567 503

This court case has been settled on 26 June 2019 for an amount of R10 567 503.

The repayment terms are as follows:

Payment of the sum of R5 283 752 to be paid on or before 1 September 2019.

Payment of the sum of R5 283 752 on or before 1 September 2020, interest of this amount calculated at the legal rate.

Due to the short term nature of the first payment, discounting is not deemed necessary as it is not material. The second payment accrues interest at the legal rate (9,75% - 10,25%), and therefore discounting is also not deemed necessary in this regard.

All payables are unsecured.

	2020 R	2019 R
19. PROPERTY RATES		
<u>Actual</u>		
Rateable Land and Buildings		
Business and Commercial Property	8 153 800	4 514 561
Public Benefit Organisations	1 985 594	1 175 627
Residential Properties	7 920	634
State-owned Properties	1 820 245	1 531 414
Vacant Land	3 583 325	1 077 845
Agricultural Property	200 689	177 535
Total Property Rates	8 153 800	4 514 561
<u>Valuations - 1 July 2019</u>		
Rateable Land and Buildings		
Business and Commercial Property	1 811 099 304	1 494 327 840
Municipal Properties	187 239 003	196 875 553
Residential Properties	31 239 300	34 083 400
State-owned Properties	474 019 700	369 870 226
Agricultural Property	597 267 000	189 087 000
Exempt properties	888 020 000	888 020 000
Total Assessment Rates	1 811 099 304	1 494 327 840

Assessment Rates are levied on the value of land and improvements, which valuation is performed every 4 years. The last valuation came into effect on 1 July 2018. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions and also to accommodate growth in the rate base due mostly to private development.

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
Basic Rate		
Residential	0,00720	0,00680
Undeveloped land/Vacant land	0,00720	0,00680
Business	0,01070	0,01020
Government	0,01070	0,01020
Agriculture/Farms	0,00180	0,00170
Public Service Infrastructure	-	-
Public Benefit Organisation	0,00180	0,00170

Rates are levied annually and monthly. Monthly rates are payable by the 25th of the following month and annual rates are payable before 30 September. Interest is levied at the prime rate plus 1% on outstanding monthly instalments.

Rebates were granted on land with buildings used solely for dwellings purposes as follows:

Residential - The first R15 000 on the valuation is exempted.

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

20. GOVERNMENT GRANTS AND SUBSIDIES

Government Grants and Subsidies - Operating	131 303 843	123 284 528
Equitable Share	123 739 000	115 774 000
Expanded Public Works Programme Integrated Grant	1 241 150	-
Local Government Financial Management Grant	2 880 000	2 415 000
Municipal Infrastructure Grant	1 849 178	1 345 187
Libraries, Archives and Museums	950 000	-
Municipal Disaster Relief Grant	596 000	487 626
Other grants	124 188	975 875
DEDEAT: Waste management grant	124 427	2 286 641
Government Grants and Subsidies - Capital	33 303 441	44 825 412
Municipal Infrastructure Grant	31 874 822	42 556 813
Expanded Public Works Programme Integrated Grant	1 019 850	2 022 000
Other grants	25 353	-
CHDM: Construction of feedlot	383 416	246 599
DEDEAT: Waste management grant	-	-
Total Government Grants and Subsidies	164 607 384	168 109 940

Included in above are the following grants and subsidies received:

Unconditional	123 739 000	115 774 000
Equitable Share	123 739 000	115 774 000
Conditional	40 868 384	51 848 114
Local Government Financial Management Grant	2 880 000	2 415 000
Expanded Public Works Programme Integrated Grant	2 261 000	2 022 000
Municipal Infrastructure Grant	33 524 000	43 902 000
Libraries, Archives and Museums	950 000	-
Other grants	149 541	975 875
Municipal Disaster Relief Grant	596 000	-
CHDM: Construction of feedlot	383 416	-
DEDEAT: Waste management grant	124 427	2 533 240
Total Government Grants and Subsidies	164 607 384	167 622 114

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
Revenue recognised per vote as required by Section 123 (c) of the MFMA:		
Equitable share	123 739 000	115 774 000
Finance and Administration	2 880 000	3 756 716
Community and Social Services	1 670 427	18 100 222
Public Safety	-	7 078 254
Planning and Development	-	1 635 233
Road Transport	35 785 000	19 232 271
Waste Management	532 957	2 533 240
Total Government Grants and Subsidies	164 607 384	168 109 940

Based on the allocations set out in the Division of Revenue Act (DoRA), no significant changes in the level of government funding are expected over the forthcoming 3 financial years.

20.1 Equitable Share

Grants received	123 739 000	115 774 000
Conditions met - Operating	(123 739 000)	(115 774 000)
Conditions still to be met	-	-

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

20.2 Local Government Financial Management Grant (FMG)

Grants received	2 880 000	2 415 000
Conditions met - Operating	(2 880 000)	(2 415 000)
Conditions still to be met	-	-

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

20.3 Municipal Infrastructure Grant (MIG)

Grants received	33 524 000	43 802 000
Conditions met - Operating	(1 649 178)	(1 345 187)
Conditions met - Capital	(31 874 822)	(42 558 813)
Conditions still to be met	0	-

The Municipal Infrastructure Grant was used to upgrade infrastructure in previously disadvantaged areas.

20.4 Libraries, Archives and Museums

Grants received	950 000	800 000
Conditions met - Operating	(950 000)	(800 000)
Conditions still to be met	-	-

The grant is used to transform urban and rural community library infrastructure, facilities and services.

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
20.5 DEDEAT: Waste management grant		
Opening balance	466 761	3 000 000
Grants received	(124 188)	(2 286 841)
Conditions met - Operating	-	(246 598)
Conditions met - Capital	<u>342 573</u>	<u>466 761</u>
Conditions still to be met		
The DEDEAT Waste management grant was used for a waste management project that seeks to address these challenges within the Waste & Environment Sector and also address socio-economic dynamics of the Municipality.		
20.6 Extended Public Works Program (EPWP)		
Grants received	2 261 000	2 022 000
Conditions met - Operating	(1 241 150)	(1 019 850)
Conditions met - Capital	<u>-</u>	<u>(2 022 000)</u>
Conditions still to be met		
<i>The grant is used for job creation projects in previous disadvantage areas</i>		
20.7 Disaster relief grant		
Grants received	596 000	-
Conditions met - Operating	(494 528)	<u>-</u>
Conditions still to be met	<u>101 472</u>	<u>-</u>
<i>The grant is used for purchase of Personal protection equipment relating to COVID 19.</i>		
20.8 Other grants		
Opening balance	1 066 300	1 630 000
Grants received	812 427	(563 701)
Conditions met - Operating	(124 427)	-
Conditions met - Capital	(408 769)	<u>-</u>
Conditions still to be met	<u>1 145 530</u>	<u>1 066 300</u>
<i>Included within other grants are the Chris Hani District Municipality Paving and beautification grant, Ward based plans grant, Dryland cropping programme grant, Alien plant project grant and Construction of feedlot grant.</i>		
<i>Included in unspent conditional grants - Other grants are the following:</i>		
Paving and beautification	12 174	12 174
Ward based plans	424 126	424 126
Dryland cropping programme	274 647	300 000
Alien plant project	30 000	30 000
Construction of feedlot	404 564	300 000
Conditions still to be met	<u>1 145 530</u>	<u>1 066 300</u>
20.9 Total Grants		
Opening balance	1 533 060	189 643 000
Grants received	164 562 427	(123 284 528)
Conditions met - Operating	(131 202 471)	(44 825 412)
Conditions met - Capital	(33 303 441)	<u>-</u>
Conditions still to be met/(Grant expenditure to be recovered)	<u>1 589 575</u>	<u>1 533 060</u>
<i>Disclosed as follows:</i>		
Unspent Conditional Government Grants and Receipts	1 488 103	1 533 060
Total	<u>1 488 103</u>	<u>1 533 060</u>

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
21. LICENCES AND PERMITS		
Trading	40 423	9 181
Road and Transport	1 703 737	1 735 805
Total Licences and Permits	1 744 161	1 744 786
	2020 R	2019 R
22. SERVICE CHARGES		
Electricity	15 591 728	15 796 226
Service Charges	15 137 005	17 118 193
<u>Less:</u> Revenue Forgone	(605 277)	(1 321 367)
Waste Management	8 297 613	8 132 593
Service Charges	9 184 798	10 520 375
<u>Less:</u> Revenue Forgone	(887 184)	(2 367 765)
Total Service Charges	23 889 341	23 929 420
Revenue Forgone can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.		
	2020 R	2019 R
23. SALES OF GOODS AND RENDERING OF SERVICES		
Building Plan Approval	50 272	180 233
Camping Fees	139	4 867
Cemetery and Burial	54 093	34 778
Clearance Certificates	6 661	68 223
Grazing Fees	1 335	5 957
Photocopies and Faxes	215	
Total Sales of Goods and Rendering of Services	112 715	304 059
	2020 R	2019 R
24. RENTAL FROM FIXED ASSETS		
Investment Property	658 909	655 477
Property, Plant and Equipment	247 347	238 166
Total Rental from Fixed Assets	906 256	893 643
	2020 R	2019 R
25. INTEREST EARNED - EXTERNAL INVESTMENTS		
Bank accounts	834 323	52 347
Financial assets	550 582	818 013
Total Interest Earned - External Investments	1 384 885	870 360
	2020 R	2019 R
26. INTEREST EARNED - RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Waste Management	3 483 938	2 790 850
Electricity	888 188	652 316
Housing	319 999	263 952
Total Interest Earned - Outstanding Receivables	4 693 124	3 707 117

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
27. INTEREST EARNED - RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS		
Property Rates	2 020 079	1 457 474
Total Interest Earned - Outstanding Non-Exchange Receivables	2 020 079	1 457 474
	2020 R	2019 R
28. OPERATIONAL REVENUE		
Agricultural Activities	7 687	3 510
Insurance Refund	1 283 166	1 872 115
Merchandising, Jobbing and Contracts	1 012	294 735
Transaction Handling Fees	100 278	78 783
Total Operational Revenue	1 392 143	2 249 153
	2020 R	2019 R
29. EMPLOYEE RELATED COST		
Basic Salaries and Wages	55 633 549	57 498 098
Acting and Post Related Allowances	1 017 254	1 092 443
Pension and UIF Contributions	9 636 952	5 591 906
Medical Aid Contributions	3 320 612	3 295 175
Overtime	1 703 599	1 385 720
Bonuses	3 914 145	4 295 213
Motor Vehicle Allowance	4 766 339	4 408 686
Cellular and Telephone	767 867	673 767
Housing Allowances	1 039 159	942 964
Other benefits and allowances	354 858	22 448
Leave accrual expense	2 726 569	650 059
Post-retirement Benefit Obligations	1 426 685	1 352 375
Medical - Note 13.1	833 701	851 419
Current Service Cost	833 701	851 419
Long Service Awards - Note 13.2	582 984	500 958
Total Employee Related Costs	86 307 589	81 209 853
	86 307 589	81 209 853

KEY MANAGEMENT PERSONNEL

Key management personnel are all appointed on 5-year fixed contracts. There are no post-employment or termination benefits payable to them at the end of the contract periods.

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Remuneration of the Municipal Manager (MM VC Makedama)

Annual Remuneration	765 000	
Telephone, assistance and other allowances	317 271	
Contributions to UIF, SDL, Bargaining council	263 151	
Total	1 345 422	

Mr Makedama performed the duties of Municipal manager from 1 October 2019 to June 2020

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
Remuneration of the Municipal Manager (MM Dr VS Vatala)		
Annual Remuneration	1 152 342	
Leave encashment	194 875	
Telephone, assistance and other allowances	25 555	
Contributions to UIF, SDL, Bargaining council	12 867	
Total	1 385 838	
<i>Dr Vatala performed the duties of Municipal manager until February 2019.</i>		
Remuneration of the Acting Municipal Manager (N Mntuyedwa)		
Acting Allowance	194 593	
Total	194 593	
<i>Mr Mntuyedwa acted as Municipal manager from October 2018 until 22 May 2019.</i>		
Remuneration of the Acting Municipal Manager (G De Jager)		
Acting allowance	27 202	
Total	27 202	
<i>Mr De Jager acted as Municipal manager from 1 June until 30 September 2019.</i>		
Remuneration of the Chief Financial Officer (GP de Jager)		
Annual Remuneration	671 586	1 526 333
Leave encashment	185 358	
Telephone, assistance and other allowances	266 585	32 980
Performance bonus	14 193	
Contributions to UIF, SDL, Bargaining council	206 520	13 950
Total	1 344 233	1 675 244
Remuneration of the Chief Financial Officer (X Sikobi)		
Annual Remuneration	249 738	
Telephone, assistance and other allowances	120 375	
Contributions to UIF, SDL, Bargaining council	20 708	
Total	390 821	
<i>Mr Sikobi was appointed as Chief Financial Officer from March 2020.</i>		
Remuneration of the Acting Chief Financial Officer (A Zindlu)		
Acting allowance	31 449	
Total	31 449	
<i>Mr Zindlu acted as Chief Financial Officer for 1 July until 30 September 2019 and also for March 2020.</i>		
Remuneration of the Manager Corporate Services (Manager Corporate Services - P Sohe)		
Annual Remuneration	182 040	
Telephone, assistance and other allowances	5 493	
Contributions to UIF, SDL, Bargaining council	1 828	
Total	199 361	
<i>Ms Sohe's services ended in the month of August 2018.</i>		

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
Remuneration of the Manager Corporate Services (Acting Manager Corporate Services - M Swayena)		
Acting allowance	206 334	249 157
Total	<u>206 334</u>	<u>249 157</u>
<i>Mrs Swayena acted as Manager: Corporate services from 1 August until 30 September 2019 and from 1 January until 30 June 2020.</i>		
Remuneration of the Manager PEDTA Services (N Mntuydwa)		
Annual Remuneration	946 258	1 462 235
Leave encashment	84 698	-
Telephone, assistance and other allowances	367 461	32 960
Contributions to UIF, SDL, Bargaining council	280 449	14 867
Total	<u>1 598 866</u>	<u>1 510 062</u>
Remuneration of the Director Infrastructure and Human Settlements (D Njilo)		
Annual Remuneration	970 498	1 146 617
Telephone, assistance and other allowances	383 437	348 579
Contributions to UIF, SDL, Bargaining council	292 565	13 778
Total	<u>1 646 500</u>	<u>1 508 973</u>
Remuneration of the Director Community Services (N Nyezi)		
Annual Remuneration	631 559	1 462 235
Telephone, assistance and other allowances	212 470	32 960
Leave encashment	155 280	-
Contributions to UIF, SDL, Bargaining council	227 923	14 072
Total	<u>1 227 231</u>	<u>1 509 106</u>
Remuneration of the Acting Director Infrastructure and Human Settlements (Z Hobongwana)		
Acting allowance	83 523	-
Total	<u>83 523</u>	<u>-</u>
<i>Mr Hobongwana performed the duties of Acting Manager: IDHS from 1 July 2019 until 30 September 2019. Above remuneration relates to the services he performed as Manager: IDHS services.</i>		
Remuneration of the Acting Director Infrastructure and Human Settlements (Ms Y Casa-Melani)		
Acting allowance	30 154	-
Total	<u>30 154</u>	<u>-</u>
<i>Ms Casa-Melani performed the duties of Acting Manager: IDHS for June 2020.</i>		

*Management opted to disclose only the acting allowances of acting directors from the 2020 financial year. As a result certain prior year balances were restated to ensure the information is comparable.

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
30. REMUNERATION OF COUNCILLORS		
Mayor - N Nyukwana	651 412	
Mayor - NF Koni	218 037	
Speaker - Katolo DS	729 488	703 000
Executive Committee Member - Lali N	686 446	661 613
Executive Committees - Cllrs B Liwani (full time exco)	686 446	661 613
Executive Committees - T Kulashe (Ndyumbo) (full time exco)	686 446	661 613
Executive Committees - Limba M (full time exco)	686 446	661 613
Other Councillors - Mapete L (Sec 79 chair person)	390 418	376 971
Ordinary Councillor- Ziduli NM [Part-time Councillor]	313 230	302 752
Ordinary Councillor- Bobotyane CH [Part-time Councillor]	313 230	302 752
Ordinary Councillor- Ndlela TM [Part-time Councillor]	313 230	302 752
Ordinary Councillor- Mjezu K [Part-time Councillor]	314 099	302 750
Ordinary Councillor- Kraqa NN [Part-time Councillor]	313 230	302 752
Ordinary Councillor-Greyling PF [Part-time Councillor]	314 103	302 752
Ordinary Councillor-Sixishe TD [Part-time Councillor]	313 230	302 752
Ordinary Councillor- Zama SE [Part-time Councillor]	313 230	302 752
Ordinary Councillor- Fatyela LA [Part-time Councillor]	313 230	302 752
Ordinary Councillor- Bongo S [Part-time Councillor]	313 230	302 752
Ordinary Councillor- Feni RZ [Part-time Councillor]	314 103	302 752
Ordinary Councillor- Moshane ZG [Part-time Councillor]	313 230	302 752
Ordinary Councillor- Mondile TF [Part-time Councillor]	313 230	302 752
Ordinary Councillor- Mahola ZD [Part-time Councillor]	314 103	302 752
Ordinary Councillor- Qomoyi MS [Part-time Councillor]	313 230	302 752
Ordinary Councillor- Makatesi M [Part-time Councillor]	313 230	302 752
Ordinary Councillor- Mrwebi TJ [Part-time Councillor]	313 230	302 752
Ordinary Councillor- Mthandeki FM [Part-time Councillor]	314 103	302 752
Ordinary Councillor- Tyulu NM [Part-time Councillor]	313 230	302 752
Ordinary Councillor- Kama N [Part-time Councillor]	313 230	302 752
Ordinary Councillor- Oyiya MP [Part-time exco member]	402 148	387 139
Ordinary Councillor- Paul LN [Part-time Councillor]	313 230	302 752
Ordinary Councillor- Njedu XH [Part-time Councillor]	313 230	302 752
Ordinary Councillor- Ngono N [Part-time Councillor]	313 230	302 752
Ordinary Councillor- James N [Part-time Councillor]	313 230	292 369
Executive Committees - N Miyobile (Part time exco member)	400 993	387 139
Other Councillors - B Twala (Part time - Sec 79 chair person)	390 418	376 971
Total Councillors' Remuneration	13 486 389	13 002 783

Remuneration paid to Councillors can be summarised as follow:

	Salary	Travel Allowance	Other Allowances	Contributions	Total
Mayor	735 869		44 400	124 980	905 259
Speaker	588 696		40 800	99 992	729 488
Executive Committee Members	2 395 509	120 000	204 000	427 268	3 146 777
Councillors	6 101 689	438 000	1 101 600	1 063 576	8 704 865
Total Councillors' Remuneration	9 221 782	555 000	1 390 800	1 715 827	13 486 389

In-kind Benefits

The Mayor, Speaker, and Executive Committee Members are full-time Councillors. Each is provided with an office and shared secretarial support at the cost of the Municipality. The Mayor may utilise official Council transportation when engaged in official duties.

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Certification by the Municipal Manager

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Signed: Municipal Manager: VC Makedama

	2020 R	2019 R
31. CONTRACTED SERVICES		
<i>Outsourced Services</i>		
Accounting and Auditing	2 370 373	5 598 025
Administrative and Support Staff	45 000	(2 856)
Bunai Services	0 000	
Medical Services [Medical Health Services & Support]	184 210	86 506
Refuse Removal	494 784	
Security Services	4 431 910	4 250 680
Transport Services	719 586	778 066
Valuer	124 556	32 293
<i>Consultants and Professional Services</i>		
Audit Committee	244 918	329 994
Business and Financial Management	2 571 984	1 643 133
Legal Advice and Litigation	3 065 088	2 949 466
Research and Advisory	487 826	
Town Planner	31 895	
<i>Contractors</i>		
Building	358 758	
Catering Services	250 130	407 853
Electrical	227 720	
Employee Wellness	193 111	17 939
Event Promoters	25 465	44 600
Gardening Services	24 517	
Maintenance of Buildings and Facilities	911 876	1 563 508
Maintenance of Equipment	3 603 117	359 181
Maintenance of Unspecified Assets	1 268 067	1 342 646
Plants, Flowers and Other Decorations	-	43 373
Stage and Sound Crew	26 675	71 454
Total Contracted Services	20 678 484	20 507 472
	2020 R	2019 R
32. DEPRECIATION AND AMORTISATION		
Property, Plant and Equipment	20 882 159	24 165 970
Intangible Assets	55 068	54 930
Investment Property carried at cost	2 407	2 400
Total Depreciation and Amortisation	20 939 634	24 223 300
	2020 R	2019 R
33. FINANCE COSTS		
Finance leases	59 588	98 202
Non-current Provisions	537 510	604 816
Non-current Employee Benefits	980 668	871 209
Payables	558 487	11 548
Overdraft Facilities	114	
Total Finance Costs	2 136 254	1 552 888

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
34. BULK PURCHASES		
Electricity	12 701 110	9 624 972
Total Bulk Purchases	12 701 110	9 624 972
	2019 R	2018 R
35. INVENTORY CONSUMED		
Consumables	1 146 380	411 120
Materials and Supplies	1 509 559	1 685 410
Total Inventory consumed	1 655 939	2 096 530
	2020 R	2019 R
36. TRANSFERS AND SUBSIDIES		
Operational	102 596	10 945 603
Monetary Allocations	102 996	10 945 603
Households	2 996	311 245
Settlement of court case	-	10 567 503
Non-profit Institutions	100 000	66 855
Total Transfers and Subsidies	102 596	10 945 603
	2020 R	2019 R
37. OPERATIONAL COSTS		
Advertising, Publicity and Marketing	581 192	608 344
Bank Charges, Facility and Card Fees	256 076	236 788
Bargaining Council	921 750	721 030
Commission	364 350	321 945
Communication	725 091	2 054 451
Deeds	40 000	8 987
Entertainment	33 322	62 665
External Audit Fees	3 612 783	5 182 182
External Computer Service	448 723	1 330 020
Hire Charges	256 710	728 432
Indigent Relief	1 822 095	1 700 215
Insurance Underwriting	2 128 906	2 326 841
Licences	390 437	337 740
Printing, Publications and Books	323 996	1 211 587
Professional Bodies, Membership and Subscription	45 611	68 670
Registration Fees	317 257	941 203
Remuneration to Ward Committees	3 034 020	3 033 035
Seating Allowance for Traditional Leaders	243 000	234 000
Servitudes and Land Surveys	59 030	-
Skills Development Fund Levy	633 930	593 832
Storage of Assets and Goods		33 941
Travel and Subsistence	2 669 941	4 020 678
Uniform and Protective Clothing	369 329	137 958
Vet Fuel	1 235 208	1 382 788
Workmen's Compensation Fund	417 977	402 192
Total Operational Costs	22 050 732	27 679 523

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
38. REVERSAL OF IMPAIRMENT LOSS/(IMPAIRMENT LOSS) ON RECEIVABLES		
Receivables from Exchange Transactions - Note 6	(13 091 685)	(8 284 227)
Receivables from Non-exchange Revenue - Note 7	(3 534 458)	(2 250 422)
Total Reversal of Impairment Loss/ (Impairment Loss) on Receivables	(16 626 143)	(10 534 649)

39. CORRECTION OF ERROR IN TERMS OF GRAP 3

The following adjustments were made to amounts previously reported in the annual financial statements of the Municipality arising from the implementation of GRAP:

	2020 R	2019 R
39.1 Receivables from Exchange Transactions		
Balance previously reported	-	11 313 935
Reverse Chris Hani debtor incorrectly recognised	-	(151 406)
Interest incorrectly charged on customer accounts	-	(34 935)
Restated Balance	-	11 127 594

The municipality incorrectly recognised a receivable for Chris Hani District Municipality. The money was however already receipted and this resulted in the overstatement of Receivables from exchange transactions by R151 406, overstatement of Operational revenue by R150 000 and the overstatement of Interest earned - Receivables from exchange transactions by R1 406.

Various properties were billed incorrectly for interest during 2019. Statements were never delivered to the customers, resulting in the accounts not being paid and interest incorrectly being levied on the accounts. The correction results in the decrease in Receivables from Exchange transactions by R34 935 and the decrease in Interest from exchange transactions by the same amount.

39.2 Operational Revenue	2 399 153
Balance previously reported	2 399 153
Reverse Chris Hani debtor incorrectly recognised	(150 000)
Restated Balance	2 249 153

The municipality incorrectly recognised a receivable for Chris Hani District Municipality. The money was however already receipted and this resulted in the overstatement of Receivables from exchange transactions by R151 406, overstatement of Operational revenue by R150 000 and the overstatement of Interest earned - Receivables from exchange transactions by R1 406.

39.3 Interest earned - Receivables from exchange transactions	3 743 460
Balance previously reported	3 743 460
Reverse Chris Hani debtor incorrectly recognised	(1 406)
Interest incorrectly charged on customer accounts	(34 935)
Restated Balance	-
	3 707 119

The municipality incorrectly recognised a receivable for Chris Hani District Municipality. The money was however already receipted and this resulted in the overstatement of Receivables from exchange transactions by R151 406, overstatement of Operational revenue by R150 000 and the overstatement of Interest earned - Receivables from exchange transactions by R1 406.

Various properties were billed incorrectly for interest during 2019. Statements were never delivered to the customers, resulting in the accounts not being paid and interest incorrectly being levied on the accounts. The correction results in the decrease in Receivables from Exchange transactions by R34 935 and the decrease in Interest from exchange transactions by the same amount.

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
39.4 Receivables from Non-exchange Transactions		
Balance previously reported	5 174 749	
Interest incorrectly charged on customer accounts	(83 138)	
Property not billed for property rates	1 232 459	
Properties billed at incorrect valuations	(13 082)	
Restated Balance	-	6 310 987

Various properties were billed incorrectly for interest during 2019. Statements were never delivered to the customers, resulting in the accounts not being paid and interest incorrectly being levied on the accounts. The correction results in the decrease in Receivables from Non-Exchange transactions by R83 138 and the decrease in Interest from non-exchange transactions by the same amount.

A property was not billed for property rates from 2015 until 2018. The corrections results in the increase in Receivables from Non-Exchange transactions by R1 232 459 and the increase in Opening Accumulated Surplus by the same amount.

Various properties were billed incorrectly for property rates based on incorrect valuations. The corrections resulted in the decrease in Receivables from Non-exchange transactions by R13 082, the decrease in Property Rates by R12 730 and the decrease in Interest from Non-exchange transactions by R353.

39.5 Interest Earned - Receivables from Non-exchange Transactions		
Balance previously reported	1 540 965	
Interest incorrectly charged on customer accounts	(83 138)	
Properties billed at incorrect valuations	(353)	
Restated Balance	-	1 457 474

Various properties were billed incorrectly for interest during 2019. Statements were never delivered to the customers, resulting in the accounts not being paid and interest incorrectly being levied on the accounts. The correction results in the decrease in Receivables from Non-Exchange transactions by R83 138 and the decrease in Interest from non-exchange transactions by the same amount.

39.6 Property Rates		
Balance previously reported	4 527 291	
Properties billed at incorrect valuations	(12 730)	
Restated Balance	-	4 514 551

Various properties were billed incorrectly for property rates based on incorrect valuations. The corrections resulted in the decrease in Receivables from Non-exchange transactions by R13 082, the decrease in Property Rates by R12 730 and the decrease in Interest from Non-exchange transactions by R353.

39.7 Opening Accumulated Surplus (1 July 2018)		
Balance previously reported	- 407 966 647	
Property not billed for property rates	- 1 232 459	
Recognise VAT not claimed on expenditure	546 829	
Restated Balance	-	409 199 105

A property was not billed for property rates from 2015 until 2018. The corrections results in the increase in Receivables from Non-Exchange transactions by R1 232 459 and the increase in Opening Accumulated Surplus by the same amount.

The municipality appointed a service provider to investigate their VAT records for the past 4 years. The service provider reported that VAT was not claimed amounting to R546 829. The correction results in the increase in VAT receivable by R546 829 and the increase in Opening Accumulated Surplus by the same amount.

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
39.8 Taxes		
Balance previously reported	-	3 538 224
Recognise VAT not claimed on expenditure	546 829	546 829
Restated Balance	<u>-</u>	<u>4 085 053</u>

The municipality appointed a service provider to investigate their VAT records for the past 4 years. The service provider reported that VAT was not claimed amounting to R546 829. The correction results in the increase in VAT receivable by R546 829 and the increase in Opening Accumulated Surplus by the same amount.

	2020 R	2019 R
40. RECONCILIATION BETWEEN NET SURPLUS/(DEFICIT) FOR THE YEAR AND CASH GENERATED/(ABSORBED) BY OPERATIONS		
Surplus/(Deficit) for the year	10 650 891	(3 806 694)
<u>Adjustments for:</u>		
Depreciation and Amortisation	20 939 634	24 223 300
Impairment loss on Fixed Assets	225 268	-
Loss/(Gain) on Sale of Fixed Assets	(20 137)	521 245
Assets derecognised	1 486 693	9 549 698
Contributed Property, Plant and Equipment	-	(535 113)
Contribution to provisions – Non-Current Provisions	537 511	604 616
Debt Impairment	18 626 143	10 534 649
Movement in employee benefits	1 831 858	2 185 510
Bad Debts written off	1 849 678	1 509 338
Operating lease income accrued	21 474	17 511
Operating Surplus/(Deficit) before changes in working capital	54 149 014	44 804 259
Changes in working capital	(22 743 580)	(2 228 594)
Increase/(Decrease) in Trade and Other Payables	(2 001 161)	4 837 877
Increase/(Decrease) in Payables from Non-exchange transactions	(4 733 714)	10 567 503
Increase/(Decrease) in Taxes	1 194 907	(1 505 905)
Increase/(Decrease) in Unspent Conditional Government Grants and Receipts	(44 957)	1 533 060
(Increase)/Decrease in Receivables from exchange and non-exchange transactions	(17 158 655)	(17 681 130)
Cash generated/(absorbed) by operations	<u>31 405 434</u>	<u>42 875 664</u>
	2020 R	2019 R
41. RECONCILIATION OF AVAILABLE CASH AND INVESTMENT RESOURCES		
Cash and Cash Equivalents - Note 10	5 791 132	4 144 940
<u>Less:</u>		
Unspent Transfers and Subsidies - Note 17	(1 488 103)	(1 533 060)
Net cash resources available for internal distribution	4 303 029	2 811 880
Allocated to:		
Employee Benefits Reserve	(13 075 473)	(10 902 034)
Non-Current Provisions Reserve	(13 857 116)	(12 811 980)
Resources available for working capital requirements	<u>(22 832 580)</u>	<u>(21 102 134)</u>

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
42. UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION		
Long-term Liabilities - Note 11	371 872	779 237
Used to finance property, plant and equipment - at cost	(371 872)	(779 237)
 Cash set aside for the repayment of long-term liabilities	 -	 -
 Cash Invested for repayment of long-term liabilities	 -	 -

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act.

	2020 R	2019 R
--	-----------	-----------

43. BUDGET INFORMATION

43.1 Explanation of variances between approved and final budget amounts

The reasons for the variances between the approved and final budgets are mainly due to performance trends which are affected by market, consumer & environmental conditions in the implementation of the Service Delivery Budget Implementation Plan.

Explanation of variances greater than 5%: Final Budget and Actual Amounts

43.2 Statement of Financial Position

43.2.1 Current Assets

Cash

The municipal cash balances increased by 13% when compared to the previous year, the reason for this is due lower expenditure trends in the 4th quarter due to COVID-19 Pandemic.

Cash Investment Deposits

The municipal investment deposits decreased by 89% due to poor collection rate during the year and spending all the conditional grants by year end.

Consumer Debtors

The net consumer debtors have increased by 32% due to an increase in consumer accounts falling beyond 90 days in ageing terms.

Other Debtors

which have not been reversed back into the municipality, this is the significant reason for 2044% percentage increase.

Inventory

Not Applicable

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

43.2.2 Non-Current Assets

Investment Property

Difference considered reasonable

Property, Plant and Equipment

Difference considered reasonable

Intangible Assets

The 14% variance is due to a reduction in interest payment linked to the lease payment as the term of the contract nears the end of its legal term.

43.2.3 Current Liabilities

Unspent Transfers & Subsidies

The municipality had anticipated to spend in full all its transfers and subsidies based on the previous year trends, however the LED grants & Waste grants were affected by the COVID-19 closure where there were no activities conducted in the 4th quarter of 2019/20.

Trade and Other Payables

There was a 11% variance due to the decrease in the list of creditors outstanding due to a reduced expenditure trends in the 4th quarter of 2019/20 due to COVID-19 pandemic, also the anticipated release of retentions and guarantees was less than projected as projects that were scheduled to be completed in the 4th quarter of 2019/20 were extended to 1st quarter of 2020/21 due to COVID-19 disruptions.

Provisions

The 12% variance is due to an increase in landfill site provision due to an extension of the size of Indive site, also the actuarial gains on employee benefits.

43.2.4 Non-Current Liabilities

Borrowing

Difference considered reasonable due to the contract that is lapsing within the next 12 months

Provisions

The 29% variance is due to a long term performance outlook ■■■ certified by the Expert Reports on Landfill Site & Employee Benefit.

43.2.5 Net Assets

Accumulated Surplus/(Deficit)

Difference considered reasonable

Statement of Financial Performance

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

4.3.2.6 Revenue

Property Rates

The actual billing was less than anticipated due to identification of properties that were previously billed but has since been reversed due to incorrect billing.

Service Charges - Electricity Revenue

The actual billing was less than anticipated due to additional connections that were estimated that did not materialise as well as a decrease in units sold which can be attributed to the high electricity losses.

Service Charges - Waste Management

The actual billing was less than anticipated due to identification of properties that were previously billed but has since been reversed due to incorrect billing.

Rental of Facilities and Equipment

Decrease in actual collection due to lease tenants who have defaulted in their lease terms of which legal action is being instituted to improve the collection rate.

Interest Earned - External Investments

There was under performance in return on investments due to lower than expected cash projections due to negative cash flow results during the year.

Interest Earned - Outstanding Debtors

The significant increase as compared to the budget amount is due to an increase in long outstanding debtors who have aged over 90 days then being charged interest.

Fines

Underperformance by the Traffic Department due to law enforcement personnel also doing traffic duties which has affected the ability to meet the set targets.

Licences and Permits

Underperformance was caused by the closure of the traffic activities in the 4th quarter due to COVID-19 shutdown.

Agency Services

Underperformance was mainly due to the planned Vehicle Testing Station not being operational due to delays in operating licence being granted by Department of Transport

Transfers Recognised - Operational

Difference considered reasonable

Other Revenue

Underperformance can be attributed to economic conditions which did not perform as anticipated at the budget stage.

Gains on Disposal of PPE

Monies recovered from the ex-employee who lost municipal property, this eventuality could not have been planned for.

Transfers Recognised - Capital

Difference considered reasonable

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

43.2.7 Expenditure

Employee Related Costs

Difference considered reasonable

Remuneration of Councillors

Difference considered reasonable

Debt Impairment

There was an significant increase in debtors impairment due to low collection rate.

Depreciation and Asset Impairment

The anticipated projects to be completed in 2019/20 were delayed which resulted in less assets being depreciated.

Finance Charges

The significant variance is due higher estimated finance costs at budget stage as compared to employee benefits actuarial report.

Bulk Purchases

There were anticipated additional planned connections which did not materialize resulting in less than budgeted for expenditure.

Other Materials

Difference considered reasonable

Contracted Services

Cost containment measures and COVID-19 impact on municipal operations resulted in budget savings.

Transfers and Grants

Difference considered reasonable

Other Expenditure

Cost containment measures and COVID-19 impact on municipal operations resulted in budget savings.

Loss on Disposal of PPE

Difference considered reasonable

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Cash Flow Statement

43.2.8 Net Cash from Operating Activities

Taxation

Difference considered reasonable

Service Charges

Underperformance on electricity and waste management revenue due to lower actual cash collection

Interest

Actual interest received from the bank was more due to low outflow transactions in the 4th quarter of 2019/20.

Other Revenue

Underperformance caused by an economic downturn during 2019/20 that was not anticipated at budget stage.

Suppliers and Employees

Difference considered reasonable

Finance costs

Less interest payments made as the lease contract is nearing its end of the term. Budget was erroneously based on the previous year actual payments.

Transfers and Grants

No transactions occurred that warranted disclosure in the current year.

43.2.9 Net Cash from Investing Activities

Proceeds on disposal of PPE

No transactions occurred that warranted disclosure in the current year.

Capital Assets

This item was incorrectly omitted in the budget due to capacity constraints in compiling a mSCOA budget that is fully compliant with the mSCOA chart and segments.

43.2.10 Net Cash from Financing Activities

Repayment of Borrowing

This item was incorrectly omitted in the budget due to capacity constraints in compiling a mSCOA budget that is fully compliant with the mSCOA chart and segments.

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R		
44. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED				
44.1 Unauthorised expenditure				
Reconciliation of unauthorised expenditure:				
Opening balance	20 728 093	5 819 238		
Unauthorised expenditure current year - operational	-	20 728 093		
Unauthorised expenditure current year - capital	(5 819 238)			
Approved by Council or condoned	-			
Unauthorised expenditure awaiting authorisation	<u>20 728 093</u>	<u>20 728 093</u>		
	2020 R	2019 R		
Unauthorised expenditure can be summarised as follow:				
Incident	Disciplinary steps/criminal proceedings			
Over expenditure of approved budget	Approved with a special adjustment budget			
		5 819 238		
		5 819 238		
		<u>5 819 238</u>		
	2020 Actual R	2020 Final Budget R	2020 Variance R	2020 Unauthorised R
Unauthorised expenditure current year - operating				
Budget and Treasury Office	35 104 820	35 418 185	313 365	-
Community and Social Services	39 719 311	39 869 801	150 290	-
Corporate Services	23 016 688	23 325 027	308 339	-
Executive and Council	20 734 371	29 908 154	173 783	-
Infrastructure Development and Human Settlements	61 032 632	61 075 072	42 440	-
Planning, Economic Development, Tourism and Agriculture	8 534 765	8 542 268	7 503	-
	<u>197 142 587</u>	<u>193 138 307</u>	<u>995 720</u>	<u>-</u>
	2020 Actual R	2020 Final Budget R	2020 Variance R	2020 Unauthorised R
Unauthorised expenditure current year - capital				
Budget and Treasury Office	-	70 000	70 000	-
Community and Social Services	4 534 317	6 634 674	2 100 357	-
Corporate Services	996 820	1 067 000	70 180	-
Executive and Council	23 786 843	25 590 149	1 793 206	-
Infrastructure Development and Human Settlements	-			
Planning, Economic Development, Tourism and Agriculture	29 328 080	33 361 823	4 033 743	-
	<u>29 328 080</u>	<u>33 361 823</u>	<u>4 033 743</u>	<u>-</u>

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2020 R	2019 R
-----------	-----------

44.2 Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure:

Opening balance	796	10 484
Fruitless and wasteful expenditure current year	5 295 023	5 124
Condoned or written off by Council	-	(10 136)
Transfer to receivables for recovery - not condoned	(412)	(4 676)
Fruitless and wasteful expenditure awaiting condonement	5 295 408	796

Fruitless and wasteful expenditure can be summarised as follow:

Incident	Disciplinary steps/criminal proceedings	2020 R	2019 R
Eskom - Interest on overdue account	An amount of R412 has been recovered from responsible employees. R10 242 remains under investigation.	10 242	132
Magwayi Court Settlement - Note 18	Under investigation	5 284 502	
Vox Telecommunications - Interest on overdue account	Under investigation	485	485
Shepstone Wylie Attorneys - Interest on overdue account	Under investigation	180	180
		5 295 408	796

44.3 Irregular expenditure

Reconciliation of irregular expenditure:

Opening balance	5 496 970	19 563 060
Irregular expenditure current year	335 308	1 398 359
Written off	-	(15 468 449)
Irregular expenditure awaiting further action	5 832 278	8 000 970

Irregular expenditure for the year can be summarised as follows:

Incident	Disciplinary steps/criminal proceedings	2020 R	2019 R
Service provider was contracted to advertise the municipality on their website without following SCM processes.	None	334 675	
The municipality followed Section 18 of the Municipal Supply Chain Regulations by advertising the quotations for 7 days. The municipality however failed to obtain 3 quotations as required by Section 17 of the Municipal Supply Chain Regulations. No approved deviation was in place. This is due to a different interpretation of the regulations by the municipality and Auditor-General	None	1 061 684	
SCM Process was not followed when acquiring the services.	None	335 308	1 398 359
		335 308	1 398 359

Recoverability of all irregular expenditure will be evaluated by Council in terms of section 32 of MFMA. No steps have been taken at this stage to recover any monies.

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

		2020 R	2019 R
44.4	Awards to suppliers in service of the state		
	The following awards were made to a supplier in service of the state during the year:		
Name of person	State organ	Capacity	
Chuma Mbande	Coega Development Corporation	Executive manager	230 147
45.	ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
45.1	Contributions to organised local government - [MFMA 125 (1)(b)] - (SALGA CONTRIBUTIONS)		
Council subscriptions		921 750	853 110
Amount paid - current year		(921 750)	(853 110)
Balance unpaid (included in creditors)		<u>-</u>	<u>-</u>
45.2	Audit fees - [MFMA 125 (1)(c)]		
Opening balance		3 864	
Current year audit fee		3 612 783	5 288 670
External Audit - Auditor-General		3 612 783	5 288 670
Amount paid - previous year		(3 864)	
Amount paid - current year		(3 612 783)	(5 285 806)
Balance unpaid (included in creditors)		<u>-</u>	<u>3 884</u>
45.3	VAT - [MFMA 125 (1)(c)]		
Opening balance		(2 482 964)	(105 550)
Amounts received - previous year		2 482 964	105 550
Amounts received - current year		7 393 646	5 083 826
Returns issued		(8 158 802)	(7 546 790)
Closing balance		<u>(765 256)</u>	<u>(2 482 964)</u>
VAT is payable on the receipt basis. Only once payment is received from the debtors is VAT paid over to SARS. All VAT returns have been submitted by the due date throughout the year.			
45.4	PAYE and UIF - [MFMA 125 (1)(c)]		
Opening balance		12 397 343	12 473 517
Current year payroll deductions and Council Contributions		(12 397 343)	(12 473 517)
Amount paid - current year		<u>-</u>	<u>-</u>
Balance unpaid (included in creditors)		<u>-</u>	<u>-</u>
45.5	Pension and Medical Aid Deductions - [MFMA 125 (1)(c)]		
Opening balance		23 231 852	16 962 690
Current year payroll deductions and Council Contributions		(23 231 852)	(16 962 690)
Amount paid - current year		<u>-</u>	<u>-</u>
Balance unpaid (included in creditors)		<u>-</u>	<u>-</u>
45.6	Councillor's arrear consumer accounts - [MFMA 124 (1)(b)]		
The following Councillors had arrear accounts for more than 90 days as at 30 June 2020.		23 048	1 156
T Kuleshe		<u>-</u>	<u>-</u>
M Limba		<u>-</u>	<u>-</u>

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

46.7 Disclosures in terms of the Municipal Supply Chain Management Regulations - Promulgated by Government Gazette 27636 dated 30 May 2005

Regulation 36(2) - Details of deviations approved by the Accounting Officer in terms of Regulation 36(1)(a) and (b)

	Amount	<u>Type of Deviation</u>		
		Single Supplier	Impractical	Emergency
2020:				
July	34 184	10 887	23 287	-
August	43 156	18 251	24 904	-
September	22 211	-	22 211	-
October	235 103	107 852	127 251	-
November	361 954	74 042	287 912	-
December	23 200	-	23 200	-
January	105 296	17 870	87 428	-
February	149 869	67 850	82 019	-
March	45 502	6 002	39 500	-
April	110 249	39 065	71 184	-
May	75 522	-	37 687	37 835
June	1 228 377	89 109	150 188	989 081
	1 434 621	430 928	976 778	1 026 916

	Amount	<u>Type of Deviation</u>		
		Single Supplier	Impractical	Emergency
2019:				
July	59 675	-	59 675	-
August	100 250	74 776	25 475	-
September	30 862	5 453	25 409	-
October	227 905	160 234	67 671	-
November	171 592	145 880	25 713	-
December	111 632	50 066	61 566	-
January	136 844	79 408	57 437	-
February	376 303	116 148	87 605	192 453
March	21 572	-	21 572	-
April	104 295	53 512	50 783	-
May	131 296	16 718	67 929	46 648
June	252 874	53 150	112 535	87 189
	1 725 101	755 442	643 369	326 290
			2020	2019
			R	R

46.8 Material losses

Electricity distribution losses

Units purchased (Kwh)	10 456 819	10 767 745
Units lost during distribution (Kwh)	3 299 061	2 811 128
Percentage lost during distribution	31,55%	26,11%
Distribution loss (Rand Value)		

The reason for the increase is due to electricity theft.

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

46. FINANCIAL RISK MANAGEMENT

The activities of the municipality expose it to a variety of financial risks, including market risk (comprising fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

(a) Foreign Exchange Currency Risk

The municipality does not engage in foreign currency transactions.

(b) Price Risk

The municipality is not exposed to price risk.

(c) Interest Rate Risk

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

The municipality did not hedge against any interest rate risks during the current year.

	2020	2019
	R	R

The potential impact on the entity's surplus/(deficit) for the year due to changes in interest rates were as follow:

1% (2019: 1%) Increase in interest rates	1 100 721	921 875
1% (2019: 1%) Decrease in interest rates	(550 361)	(460 937)

(d) Credit Risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the Municipality to incur financial loss.

Credit risk arises mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Trade and other receivables are disclosed net after provisions are made for impairment and bad debts. Trade receivables comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other receivables is considered to be moderate due the diversified nature of receivables and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

The credit quality of receivables are further assessed by grouping individual debtors into different categories with similar risk profiles. The categories include the following: Bad Debt, Deceased, Good payers, Slow Payers, Government Departments, Debtors with Arrangements, Indigents, Municipal Workers, Handed over to Attorneys and Untraceable account. These categories are then impaired on a group basis based on the risk profile/credit quality associated with the group.

All rates and services are payable within 30 days from invoice date. Refer to note 6 and 7 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms.

The provision for bad debts could be allocated between the different classes of receivables as follows:

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 %	2020 R	2019 %	2019 R
<u>Non-exchange Receivables</u>				
Rates	25,23%	22 660 959	26,79%	19 126 500
<u>Exchange Receivables</u>				
Services	74,77%	67 158 763	73,21%	52 257 158
	100,00%	89 819 721	100,00%	71 383 658

No receivables are pledged as security for financial liabilities.

Due to short term nature of trade and other receivables the carrying value disclosed in note 6 and 7 of the financial statements is an approximation of its fair value. Interest on overdue balances are included at prime lending rate plus 1% where applicable.

	Exchange Receivables	Non-exchange Receivables
<u>Ageing of amounts past due but not impaired are as follow:</u>		
2020		
1 month past due	1 458 044	595 826
2+ months past due	5 096 495	6 344 587
	6 554 539	6 940 394
2019		
1 month past due	1 216 308	589 906
2+ months past due	6 314 251	5 497 659
	7 530 559	6 087 564

The entity only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

The entity only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

The banks utilised by the municipality for current and non-current investments are all listed on the JSE (First National Bank and Standard Bank). The credit quality of these institutions are evaluated based on their required SENS releases as well as other media reports. Based on all public communications, the financial sustainability is evaluated to be of high quality and the credit risk pertaining to these institutions are considered to be low.

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from national and provincial government and there are no expectation of counter party default.

Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
Financial assets exposed to credit risk at year end are as follows:		
Receivables from exchange transactions	75 401 654	83 384 752
Receivables from non-exchange transactions	30 579 240	25 437 487
Cash and Cash Equivalents	<u>5 790 662</u>	<u>4 144 470</u>
	<u>111 771 556</u>	<u>92 966 710</u>

(e) Liquidity Risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the financial year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years
2020				
Long-term Liabilities	389 128	-	-	-
Trade and Other Payables	12 237 773	-	-	-
Payables from Non-exchange transactions	5 833 789	-	-	-
Unspent Transfers and Subsidies	<u>1 488 103</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>19 948 793</u>	<u>—</u>	<u>—</u>	<u>—</u>
	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years
2019				
Long-term Liabilities	466 954	389 128	-	-
Trade and Other Payables	14 234 736	-	-	-
Payables from Non-exchange transactions	5 283 752	5 833 789	-	-
Unspent Transfers and Subsidies	<u>1 533 060</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>21 518 501</u>	<u>6 222 917</u>	<u>—</u>	<u>—</u>

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2020	2019
R	R

47. FINANCIAL INSTRUMENTS

In accordance with GRAP104.45 the financial liabilities and assets of the municipality are classified as follows:

47.1 <u>Financial Assets</u>	Classification
Receivables from Exchange Transactions	
Electricity	Financial Instruments at amortised cost
Property Rentals	Financial Instruments at amortised cost
Waste Management	Financial Instruments at amortised cost
Chris Hani Debtor	Financial Instruments at amortised cost
	10 449 698
	9 183 615
	4 098 283
	3 321 583
	59 713 363
	49 739 265
	1 140 309
	1 140 309
Receivables from Non-Exchange Transactions	
Other Receivables	Financial Instruments at amortised cost
	814 534
	57 944
Cash and Cash Equivalents	
Bank Balances	Financial Instruments at amortised cost
Call Deposits	Financial Instruments at amortised cost
Cash On-hand	Financial Instruments at amortised cost
	3 974 509
	1 415 640
	1 816 153
	2 728 830
	470
	470
	82 007 320
	87 587 637
SUMMARY OF FINANCIAL ASSETS	
Financial Instruments at amortised cost:	
Receivables from Exchange Transactions	Electricity
Receivables from Exchange Transactions	Property Rentals
Receivables from Exchange Transactions	Waste Management
Receivables from Exchange Transactions	Chris Hani Debtor
Receivables from Non-exchange Transactions	Other Receivables
Cash and Cash Equivalents	Bank Balances
Cash and Cash Equivalents	Call Deposits
Cash and Cash Equivalents	Cash On-hand
	10 449 698
	9 183 615
	4 098 283
	3 321 583
	59 713 363
	49 739 265
	1 140 309
	1 140 309
	814 534
	57 944
	3 974 509
	1 415 640
	1 816 153
	2 728 830
	470
	470
	82 007 320
	87 587 637
47.2 <u>Financial Liabilities</u>	Classification
Long-term Liabilities	
Capitalised Lease Liability	Financial Instruments at amortised cost
	371 872
	779 237
Trade and Other Payables	
Court case settlement	Financial Instruments at amortised cost
Trade Payables	Financial Instruments at amortised cost
Third party payables (Payroll)	Financial Instruments at amortised cost
Sundry Deposits	Financial Instruments at amortised cost
Sundry Creditors	Financial Instruments at amortised cost
Retentions and Guarantees	Financial Instruments at amortised cost
	5 833 789
	10 587 503
	1 327 547
	5 428 812
	184 164
	7 813
	144 635
	63 976
	76 585
	78 352
	10 504 863
	8 655 783
Other payables	
Unspent transfers and subsidies	Financial Instruments at amortised cost
	1 488 103
	1 533 080
	19 931 536
	27 114 536

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
SUMMARY OF FINANCIAL LIABILITIES		
Financial Instruments at amortised cost:		
Long-term Liabilities	Capitalised Lease Liability	371 872
Payables from Non-exchange transactions	Court case settlement	5 833 789
Trade and Other Payables	Trade Payables	327 547
Trade and Other Payables	Third party payables (Payroll)	184 164
Trade and Other Payables	Sundry Deposits	144 635
Trade and Other Payables	Sundry Creditors	76 585
Trade and Other Payables	Retention and Guarantees	10 504 863
Other payables	Unspent transfers and subsidies	1 488 103
	19 931 536	27 114 536
	2020 R	2019 R

48. STATUTORY RECEIVABLES

In accordance with the principles of GRAP 108, Statutory Receivables of the municipality are classified as follows:

Taxes		
VAT Receivable	4 412 759	5 433 789
Receivables from Non-Exchange Transactions		
Rates	29 764 706	25 379 543
Total Statutory Receivables (before provision)	29 764 706	25 379 543
Less: Provision for Debt Impairment	(22 660 959)	(19 126 500)
Total Statutory Receivables (after provision)	11 518 307	11 686 831

Statutory Receivables arises from the following legislation:

Taxes	- Value Added Tax Act (No 89 of 1991)
Rates	- Municipal Properties Rates Act (No 6 of 2004)
Fines	- Criminal Procedurs Act

Statutory receivables are initially measured at transaction value, and subsequently at cost.

	2020 R	2019 R
Reconciliation of Provision for Debt Impairment		
Balance at beginning of year	19 126 500	16 876 078
Contribution to provision	3 534 458	2 250 422
Balance at end of year	22 660 959	19 126 500

Ageing of amounts past due and impaired:

1 month past due	22 660 959	19 126 500
2+ months past due	22 660 959	19 126 500

Ageing of amounts past due but not impaired:

1 month past due	585 826	589 906
2+ months past due	6 344 567	6 497 659
	6 930 393	6 087 564

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
<u>Interest Received from Statutory Receivables</u>		
Receivables from Non-Exchange Transactions	2 020 079	1 457 474
	<u>2 020 079</u>	<u>1 457 474</u>

49. PRINCIPAL - AGENT ARRANGEMENTS

49.1 Principal in other Principal-Agent Arrangements (non-material)

Emalahleni municipality acts as the Principal in the following non-material Principal-Agent Arrangements:

- Supply, delivery, installation and commissioning of a prepaid vending system.
 - Utilities World - 1 July 2019 until 29 February 2020
 - Ontec - 1 March 2020 - 30 June 2020

The following information is disclosed in aggregate as per GRAP 109 par 61.

Compensation paid for agency activities

Commission	384 350	321 945
------------	---------	---------

Emalahleni municipality paid 3.99% commission to Utilities World for acting as an agent for the sale of prepaid electricity on its behalf during the financial year.

Emalahleni municipality paid commission ranging from 0.20% - 2.75% to Ontec for acting as an agent for the sale of prepaid electricity on its behalf during the financial year.

	2020 R	2019 R
--	-----------	-----------

Resources

Resources remitted during financial year

Prepaid electricity sales	R 999 687	R 592 509
	<u>R 999 687</u>	<u>R 592 509</u>

Resources under custodianship of agent at year-end

There are no resources under the custodianship of the agents, nor have they been recognised as such.

	2020 R	2019 R
--	-----------	-----------

49.2 Agent in arrangement

Emalahleni Municipality is the Agent in the Principal-Agent arrangement with the Department of Transport - Eastern Cape.

The municipality acts as agent by collecting the monies for motor vehicles licences from the community and remitting them to the Department of Transport. In exchange for this service, commission is received on the monies collected.

Compensation received for agency activities

Commission	536 945	800 266
------------	---------	---------

Emalahleni municipality was paid 19% commission by Department of Transport for acting as an agent on its behalf during the financial year.

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Reconciliation of Agency Funds and Disbursements

Department of Transport - Eastern Cape	Total Agency funds received	Amount remitted to the principal	Variance between amounts received and amounts remitted	Explanation of Variance
2020	2 979 841	2 993 891	(14 050)	Trivial

Resources under custodianship at year-end

None	2020	2019
R	R	R

50. CONTINGENT LIABILITY

The municipality is not currently engaged in litigation which could result in damages/costs being awarded against Council if claimants are successful in their actions. The following are the estimates:

Description of event

Mkuyana vs Emalahleni Local Municipality: Summons was issued against Emalahleni Municipality by W.Kuyane. The Plaintiff, Mr Mkuyana, has sued the Municipality for damages based on non-compliance with the contract of employment by the employer. The matter was set down for trial in the Mthatha High Court in June 2018. The matter was postponed since the June 2016 hearing. A cost order was granted against the Plaintiff. During December 2017 certain properties of the Plaintiff were attached and subsequently sold on auction. An amount of R40 000.00 was realised from the auction.	3 191 000	3 191 000
This matter was erroneously omitted from the 2019 Financial Statements as a legal confirmation from the attorneys was not received at the time. Consequently the corresponding prior year figure has been restated to include the possible liability.	3 000 000	400 000
Vatala vs Emalahleni Local Municipality: The Municipal Manager and Director: Corporate services took the Municipality to court after council recent their appointment. Matter is still in court		
The reason for the significant increase, according to the attorneys, is because the plaintiff amended his pleadings during arbitration.	250 000	250 000
N Ngqola vs Emalahleni Local Municipality. Reclaiming attached vehicle that has been sold.	150 000	150 000
Ngqola vs Emalahleni Local Municipality. Spoliation order application on electricity supply disconnection.	60 000	150 000
Mlungwana vs Emalahleni Local Municipality. Spoliation order application on electricity supply disconnection.	2 000 000	1 500 000
Njuze vs Emalahleni Local Municipality. Labour court claim for compensation for work allegedly done while acting in another post.		70 000
Martinus Grobler vs Emalahleni Local Municipality. Claim for payment for services allegedly rendered to the municipality.	651 000	711 000
Claims against Council		

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 R
CONTINGENT ASSETS		
A fraud case against employees amounted to R332 186.94 is in the process of investigation and mitigation	322 187	322 187
Emalahleni Local Municipality vs Rate Payers Association: Contravention of Building Control by-laws	300 000	-
Public liability insurance. The municipality intends to institute a claim to their insurance provider to reimburse the municipality for the lost court case against Mr Mawayi - Note 18.	10 567 503	-
Claims by Council	11 109 690	322 187

	2020 R	2019 R
51. RELATED PARTIES		
Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.		
51.1 Related Party Transactions		
	Rates	Service Charges
Year ended 30 June 2020		Other
Councillors		Outstanding Balance
MS LIMBA	1 447	26
GT KULASHE	352	1 374
MT MONDILE	458	22
PF GREYLING	3 410	23
	4 219	0 515
	4 219	1 445
	4 219	24 759
	Rates	Service Charges
Year ended 30 June 2019		Other
Councillors		Outstanding Balance
MS LIMBA	1 292	78
LCN NYUKWANA	9 586	644
	9 586	721
	9 586	1 562
	9 586	19 633
	9 586	21 195

The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.

51.2 Related Party Loans

None.

51.3 Compensation of key management personnel

The compensation of key management personnel is set out in note 29 to the Annual Financial Statements.

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

		2020 R	2019 R
51.4 Other related party transactions			
The following purchases were made during the year where Councillors or staff have an interest:			
Company Name	Related Party	Service Capacity	
Universal Garage	P.Greylig	Councillor	193 064
Khazimla Holdings (Pty) Ltd	NM. Ziduli	Councillor	37 465
			<u>193 064</u>
			<u>230 529</u>

51.5 Other related party balances

The following outstanding balances exist at year-end where Councillors or staff have an interest:

Company Name	Related Party	Service Capacity		
Universal Garage	P.Greylig	Councillor	3 705	7 557
			<u>3 705</u>	<u>7 557</u>

52. FINANCIAL SUSTAINABILITY

Management is of the opinion that the municipality will continue to operate as a going concern and perform its functions as set out in the Constitution.

The indicators or conditions that may, individually or collectively, cast significant doubt about the going concern assumption are as follows:

Financial Indicators

The current ratio decreased to 0.55:1 from 0.58:1 in the prior year. The ratio has remained largely consistent for the 2 years.

The municipality have budgeted for a surplus of R33 553 050 for the 2021 financial year and an increase in cash and cash equivalents of R14 994 396.

The average debtors' payment days increased to 942 days from 939 days. The debtors impairment ration increased to 85% from 80%. The collection rate is considerably worst than the norm of 30 days

Other Indicators

Possible outflow of resources due the contingent liability disclosed in note 50

Impact of Covid-19

The coronavirus outbreak has been international news since December 2019, but the South African National Institute for Communicable Diseases only confirmed the first positive case of COVID-19 in South Africa on 5 March 2020. On the 23rd of March 2020 President Cyril Ramaphosa announced the nationwide lockdown. On 30 March 2020

the Minister of Finance issued a conditional Exemption Notice in terms of section 177(1)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), in order to facilitate and enable the performance of legislative responsibilities by municipalities and municipal entities during the national state of disaster.

Current Ratio (norm - 2:1)	0.55 : 1	0.59 : 1
Creditors days (norm - 30 days or less)	8 days	27 days
Debtors collection rate (95% or more)	17%	24%

When analysing the results of the ratios, it can be concluded that the COVID-19 pandemic had an adverse effect from a financial sustainability perspective. The results are not solely due to the effects of COVID-19 and subsequent lockdown regulations, but has been significantly impacted by the pandemic. The municipality has assessed that no going concern issues has been noted and that the municipality can continue in operational existence for the foreseeable future.

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

COVID-19 - Response Expenditure

There are no prior year information available regarding expenditure in lieu of Covid-19. The

Type of expenditure	Nature of expenditure	2020 R	2019 R
Face masks	Inventory consumed	449 965	-
Sanitisers	Inventory consumed	187 703	-
Consumables	Inventory consumed	82 150	-
		719 818	-

The Covid-19 response expenditure is funded from the following sources:

Own Revenue	123 818	-
Grant Funding	596 000	-
	719 818	-

APPENDIX A
EMALAHLEN MUNICIPALITY
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2020

EXTERNAL LOANS	Rate	Serial Number	Redeemable	Balance at 30 June 2019	Correction of Error	Received during the period	Redeemed written off during the period	Carrying Value of Property, Plant & Equipment	Other Costs in accordance with the MFMA
LEASE LIABILITY									
Xerox C405		3356664344	30/04/2021	12 156	-	-	-	(6 355)	5 801
Xerox C405		3356664352	30/04/2021	12 156	-	-	-	(6 355)	5 801
Xerox C405		3356664360	30/04/2021	12 156	-	-	-	(6 355)	5 801
Xerox C405		3356664387	30/04/2021	12 156	-	-	-	(6 355)	5 801
Xerox C7020/5		3492999852	30/04/2021	30 431	-	-	-	(15 908)	14 522
Xerox C7020/5		3493043589	30/04/2021	30 431	-	-	-	(15 908)	14 522
Xerox C7020/5		3493044070	30/04/2021	30 431	-	-	-	(15 908)	14 522
Xerox C7020/5		3493047550	30/04/2021	30 431	-	-	-	(15 908)	14 522
Xerox WC7225		3337143660	30/04/2021	30 431	-	-	-	(15 908)	14 522
Xerox WC7225		3337144178	30/04/2021	30 431	-	-	-	(15 908)	14 522
Xerox C8070		3712949502	30/04/2021	94 271	-	-	-	(49 283)	44 989
Xerox C8070		3712949057	30/04/2021	94 271	-	-	-	(49 283)	44 989
Xerox C8070		3712949464	30/04/2021	94 271	-	-	-	(49 283)	44 989
Xerox C8070		3712949367	30/04/2021	94 271	-	-	-	(49 283)	44 989
Xerox D95		3909514427	30/04/2021	170 942	-	-	-	(89 364)	81 578
Total Lease Liabilities				779 237				(407 365)	371 872

The Appendix is a supplementary schedule to the financial statements and has not been audited.

APPENDIX B
EMALAHLENI MUNICIPALITY
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020
GENERAL FINANCE STATISTIC CLASSIFICATIONS

2019 Actual Income R	2019 Actual Expenditure R	2019 Surplus/ (Deficit) R		2020		2020 Surplus/ (Deficit) R
				Actual Income R	Actual Expenditure R	
129 352 885	(30 971 357) (82 056 828)	(30 971 357) 47 296 057	Governance and Administration	9 077 300 134 502 515	(34 857 562) (62 080 204)	(25 780 262) 72 422 311
4 045 275	(8 039 398) (489 837)	(3 994 123) (469 837)	Community and Public Safety	3 834 615	(14 153 219) (536 372)	(10 318 604) (536 372)
444 735	(2 473 873)	(2 029 138)	Sport and recreation	-	-	-
			Public safety	-	-	-
			Housing	-	-	-
			Health	-	-	-
			Economic and Environmental Services	-	-	-
757 443	(11 624 726)	(10 867 283)	Planning and development	90 755	(10 740 164)	(10 649 410)
45 924 000	(10 652 315)	35 271 685	Road transport	35 785 000	(31 081 804)	4 703 196
		-	Environmental protection	-	-	-
			Trading Services	-	-	-
16 463 650	(33 758 025)	(17 294 375)	Energy sources	16 335 515	(25 368 447)	(9 032 933)
	-	-	Water management	-	-	-
11 843 872	(32 572 194)	(20 728 321)	Waste water management	12 314 508	(20 285 019)	(7 970 511)
	-	-	Waste management	-	-	-
208 831 860	(212 638 553)	(3 806 693)	Other	-	-	-
	-	-	Sub Total	211 940 207	(201 289 316)	10 650 891
			Less Inter-Departmental Charges	-	-	-
			Total	211 940 207	(201 289 316)	10 650 891

The Appendix is a supplementary schedule to the financial statements and has not been audited.

APPENDIX C
EMALAHLENI MUNICIPALITY
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020
MUNICIPAL VOTES CLASSIFICATIONS

2019 Actual Income R	2019 Actual Expenditure R	2019 Surplus/ (Deficit) R		2020 Actual Income R	2020 Actual Expenditure R	2020 Surplus/ (Deficit) R
-	(30 971 357)	(30 971 357)	Municipal Manager			
129 352 885	(38 678 895)	90 673 990	Mayor and Council	9 077 300	(34 857 562)	(25 780 262)
757 443	(43 377 933)	(43 377 933)	Chief Financial Officer			
	(11 624 726)	(10 867 283)	Budget and Treasury Office	134 502 515	(36 666 191)	97 836 324
			Director: Administration			
4 045 275	(8 039 398)	(3 994 123)	Corporate Services	-	(25 414 013)	(25 414 013)
	(489 837)	(489 837)	Planning and Development	90 755	(10 740 164)	(10 649 410)
			Director: Community Services			
444 735	(2 473 873)	(2 029 138)	Community and Social Services	3 834 615	(14 153 219)	(10 318 504)
			Sport and Recreation	-	(536 372)	(536 372)
			Housing	-	(2 186 524)	(2 186 524)
			Director: Technical Services			
45 924 000	(10 652 315)	35 271 685	Road Transport	35 785 000	(31 081 804)	4 703 196
16 463 650	(33 758 025)	(17 294 375)	Electricity	16 335 515	(25 368 447)	(9 032 933)
11 843 872	(32 572 194)	(20 728 321)	Waste Management	12 314 508	(20 285 019)	(7 970 511)
208 831 860	(212 638 553)	(3 806 693)	Sub Total	211 940 207	(201 289 316)	10 650 891
			Less Inter-Departmental Charges	-	-	-
208 831 860	(212 638 553)	(3 806 693)	Total	211 940 207	(201 289 316)	10 650 891

The Appendix is a supplementary schedule to the financial statements and has not been audited.

APPENDIX D
EMALAHLENI MUNICIPALITY
DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Grant Description	Balance 30 June 2019	Correction of Error	Restated Balance 30 June 2019	Contributions during the year	Operating Expenditure during the year	Capital Expenditure during the year	Balance 30 June 2020	Unpaid 30 June 2020 (Debtor)	
								Transferred to Revenue	Unspent 30 June 2020 (Creditor)
National Government Grants									
Equitable Share	-	-	-	123 739 000	(123 739 000)	-	-	-	-
Finance Management Grant	-	-	-	2 880 000	(2 880 000)	-	-	-	-
Municipal Infrastructure Grant	-	-	-	33 524 000	(1 649 178)	(31 874 822)	0	-	0
Extended Public Works Programme	-	-	-	2 261 000	(1 241 150)	(1 019 850)	-	-	-
Municipal Disaster Relief Grant	-	-	-	596 000	(596 000)	-	-	-	-
Local Government LGSETA	-	-	-	124 427	(124 427)	-	-	-	-
Total National Government Grants	-	-	-	163 124 427	(130 229 755)	(32 894 672)	0	0	0
Provincial Government Grants									
DEDEAT: Waste management grant	466 761	-	466 761	-	(124 188)	-	342 573	342 573	-
Library	-	-	-	950 000	(950 000)	-	-	-	-
Total Provincial Government Grants	466 761	-	466 761	950 000	(1 074 188)	-	342 573	342 573	-
District Municipality									
Paving and beautification	12 174	-	12 174	-	-	-	12 174	12 174	-
Ward based plans	424 126	-	424 126	-	-	-	424 126	424 126	-
Dryland cropping programme	300 000	-	300 000	-	-	(25 353)	274 647	274 647	-
Alien plant project	30 000	-	30 000	-	-	-	30 000	30 000	-
Construction of faeclo	300 000	-	300 000	488 000	-	(383 416)	404 584	404 584	-
Total District Municipality Grants	1 066 300	-	1 066 300	488 000	-	(408 769)	1 145 530	1 145 530	-
Total Grants	-	-	-	1 533 060	164 562 427	(131 303 943)	(33 303 441)	1 488 103	1 488 103

The Unspent Grants are cash-backed by term deposits. The municipality compiled with the conditions attached to all grants received. No grants were withheld.

The Appendix is a supplementary schedule to the financial statements and has not been audited.